

CASE

NUMBER:

99-310

IN THE MATTER OF THE APPLICATION OF THE SOUTHERN MADISON
WATER DISTRICT TO ISSUE SECURITIES IN THE APPROXIMATE
PRINCIPAL AMOUNT OF EIGHT HUNDRED SIXTY THOUSAND DOLLARS
(\$860,000) FOR THE PURPOSE OF REFUNDING CERTAIN OUTSTANDING
REVENUE BONDS OF THE DISTRICT AND TO PROVIDE FUNDS PURSUANT
TO THE PROVISIONS OF KRS 278.300 AND 807 KAR 5:001

SEQ NER	ENTRY DATE	REMARKS
0001	07/22/1999	Application.
0002	07/28/1999	Acknowledgement letter
0003	08/13/1999	Order granting deviation from the requirements of 807 KAR 5:001, Section 6
0004	08/13/1999	Def. letter, info due 8/28
M0001	08/20/1999	SOUTHERN MADISON WD LAURA THEILMANN-AMENDED APPLICATION
0005	08/25/1999	Def. cured letter
0006	09/01/1999	FINAL ORDER; AUTHORIZED TO ISSUE BONDS FOR AN AMOUNT NOT TO EXCEED \$860,000
0007	10/04/2000	First Reminder Letter to file Info. re: Issuance of Securities.
M0002	10/23/2000	C. MICHAEL WELDON/SOUTHERN MADISON-COMPLIANCE WITH ORDER OF 9/1/1999

BURNAM, THOMPSON, WELDON, SIMONS AND DUNLAP, P.S.C.
ATTORNEYS AT LAW

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RICHMOND, KENTUCKY 40476-0726

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RECEIVED
OCT 23 2000
PUBLIC SERVICE
COMMISSION

October 19, 2000

Mr. Thomas M. Doorman
Executive Director
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602

Re: Case Number: 1999-310
Southern Madison's Compliance with Order of September 1, 1999

Dear Mr. Doorman:

By letter dated October 4, 2000, Ms. Stephanie Bell was kind enough to point out that the Order entered in this case on September 1, 1999, paragraph 3, page 3, required Southern Madison to advise the Commission in writing of certain information relating to the securities which were the subject matter of that case.

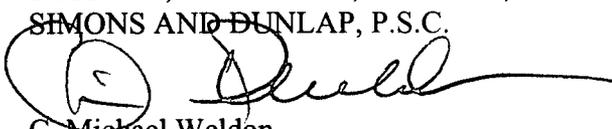
In compliance with that paragraph of the Commission's Order of September 1, 1999, as well as Ms. Bell's letter of October 4, 2000, I hereby submit the following information:

1. Date or dates of issuance. The bonds were issued on September 1, 1999.
2. The price paid and interest rate. The price paid and interest rates are shown on the final official statement dated August 3, 1999, copy of which is attached hereto.
3. The purchaser of the bond issued was Bernardi Securities, Inc.
4. Fees and expenses, including underwriting discounts or commissions. Underwriter's discount was \$16,622.58; cost of issuance, including fee to bond counsel, was \$35,000.00.

Should any further information be requested or required, please advise the undersigned. A complete transcript of proceedings of the bond issuance is available and will be provided upon request.

Very truly yours,

BURNAM, THOMPSON, WELDON,
SIMONS AND DUNLAP, P.S.C.


C. Michael Weldon
Counsel for Southern Madison Water District

CMW:cq
4694

Enclosures

cc: Southern Madison Water District
Hon. Laura H. Theilmann

FINAL OFFICIAL STATEMENT
DATED AUGUST 3, 1999

RECEIVED

OCT 23 2000

NEW ISSUE
BANK ELIGIBLE

NO RATING REQUIRED
PUBLIC SERVICE
COMMISSION

In the opinion of Bond Counsel, under existing law and as of the date of original issuance thereof (i) interest on the Bonds is excluded from gross income of the holders thereof for purposes of federal income taxation and (ii) interest on the Bonds is not a specific item of tax preference for purposes of the federal alternative minimum tax, all subject to the qualifications described herein under the heading "Tax Exemption." The Bonds and interest thereon are exempt from income taxation and ad valorem taxation by the Commonwealth of Kentucky and political subdivisions thereof (see "Tax Exemption" herein).

\$865,000
SOUTHERN MADISON WATER DISTRICT
WATERWORKS REFUNDING AND IMPROVEMENT
REVENUE BONDS, SERIES 1999

Dated: September 1, 1999

Due: January 1, as shown below

Interest on the Bonds is payable each January 1 and July 1, beginning January 1, 2000. The Bonds are being issued as fully registered bonds and will be available for purchase in principal amounts of \$5,000 and integral multiples thereof. The Bonds are subject to redemption prior to maturity as described herein.

Upon issuance and delivery, the Bonds will be secured by a pledge of and lien on the revenues of the District (as hereinafter defined) and by a mortgage lien on the Mortgaged Properties as hereinafter described.

<u>Maturing</u> <u>January 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Priced to</u> <u>Yield</u>
2000	\$20,000	5.100%	4.40%
2001	15,000	5.100%	4.50%
2002	20,000	5.125%	4.60%
2003	20,000	5.125%	4.70%
2004	20,000	5.150%	4.80%
2010	25,000	5.300%	5.30%
2011	30,000	5.350%	5.35%
2012	30,000	5.400%	5.40%

\$60,000 - 5.15% Term Bond Maturing January 1, 2007, Priced to Yield 5.00%
\$50,000 - 5.15% Term Bond Maturing January 1, 2009, Priced to Yield 5.15%
\$100,000 - 5.50% Term Bond Maturing January 1, 2015, Priced to Yield 5.50%
\$160,000 - 5.65% Term Bond Maturing January 1, 2019, Priced to Yield 5.65%
\$315,000 - 5.70% Term Bond Maturing January 1, 2025, Priced to Yield 5.75%*

The Bonds are offered when, as, and if issued and received by the purchasers, subject to prior sale, to withdrawal or modification of the offer without notice, to the approving legal opinion of Wyatt, Tarrant & Combs, Louisville, Kentucky, Bond Counsel, and to certain other conditions.

The Bonds are being issued pursuant to the Resolution (as defined herein) in order to i) discharge and defease the currently outstanding Southern Madison Water District Waterworks Revenue Bonds of 1987; ii) pay a portion of the costs of water line extensions; and iii) pay the costs of issuance of the Bonds.

The District deems this Official Statement to be final for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1).

* Subject to original issue discount

Bernardi Securities, Inc.

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY**

Larry Todd, Chairman
Paul Reynolds, Secretary
Jerry Combs, Treasurer

Ray Curry, Superintendent
Dallas Cox, General Manager

COUNSEL TO THE ISSUER

C. Michael Weldon, Esquire
Richmond, Kentucky

INDEPENDENT ACCOUNTANTS

James, Vice & Smith
Richmond, Kentucky

CONSULTING ENGINEERS

KENVIRONS, Inc.
Frankfort, Kentucky

BOND COUNSEL

Wyatt, Tarrant & Combs
Louisville, Kentucky

PAYING AGENT AND REGISTRAR

Peoples Bank & Trust Company of Madison County
Berea, Kentucky

FINANCIAL ADVISOR

Ross, Sinclair & Associates
Lexington, Kentucky
Louisville, Kentucky
Cincinnati, Ohio

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**OFFICIAL STATEMENT
Relating to the Issuance of**

\$865,000

**SOUTHERN MADISON WATER DISTRICT
WATERWORKS REFUNDING AND IMPROVEMENT
REVENUE BONDS,
SERIES 1999**

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information pertaining to the Southern Madison Water District Waterworks Refunding and Improvement Revenue Bonds, Series 1999 (the "Series 1999 Bonds" or the "Bonds") to be issued in the aggregate principal amount set forth above.

The Bonds are being issued under and secured by the Series 1999 Bond Resolution, was adopted by the Southern Madison Water District (the "District") on August 2, 1999 (the "Resolution" or "Series 1999 Resolution"), authorizing the issuance of and providing the security for Bonds. The Bonds and all Outstanding Bonds, as defined herein, are issued under Chapters 74 and 106 of the Kentucky Revised Statutes ("KRS").

The 1999 Bonds are being issued pursuant to the Resolution on a parity with the outstanding Southern Madison Water District Waterworks Revenue Bonds of 1969 (the "1969 Bonds") in order to currently refund the outstanding Southern Madison Water District Waterworks Revenue Bonds of 1987 (the "Prior Bonds"); to construct water line extensions (see "The Project" herein) and to pay the costs of issuance of the Bonds.

The Bonds do not constitute an indebtedness of the District within the meaning of the Constitution of the Commonwealth of Kentucky, but are payable as to principal and interest and premium, if any, solely from and are secured by, a pledge of revenues and income resulting from the collection of water rates, and rentals and charges for the services rendered by the waterworks facilities (the "System") owned by the District. A statutory mortgage lien on all properties of the District has been granted under the Resolution to and in favor of the registered owner or owners of the Bonds and such properties shall remain subject to a statutory mortgage lien until the payment in full of the principal of and interest on the Bonds.

The Bonds are not general obligations of the District, or the counties, cities, water districts or other water associations it may serve. For a more detailed description of the sources of payment of the Bonds and the rate covenant and statutory mortgage lien that secure the Bonds, see "Security and Sources of Payment."

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of financial and other information regarding the District is not intended, unless specifically stated, to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future.

This Official Statement should be considered in its entirety, and no one subject discussed should be considered more or less important than any other by reason of its location in the text. Reference should be made to laws, reports or other documents referred to in this Official Statement for more complete information regarding their contents. Prior to issuance and delivery of the Bonds, copies of the Resolution, may be obtained at the office of the District.

AUTHORIZATION AND PURPOSE

The Board of Commissioners of the District at its meeting of August 2, 1999, authorized a Preliminary Official Statement, the Bid Form, the official Notice of Sale and other actions with respect to the offering for sale of the Bonds, in a principal amount of approximately \$860,000 as well as the Series 1999 Resolution. The Bonds are being issued for the purposes of providing funds for the (i) defeasance of the Prior Bonds, (ii) construction of water line extensions and (iii) payment of the costs of issuance of the Bonds.

Issuance and delivery of the Bonds is contingent upon the District receiving an order from the Public Service Commission (the "PSC") in accordance with KRS Section 278.300 approving the issuance of the Bonds. The District filed its application for such an order with the PSC on July 22, 1999. KRS Section 278.300(2) provides that such application will be placed at the head of the docket and the District anticipates receiving such an order from the PSC within sixty (60) days of its application.

Issuance and delivery of the Bonds is also contingent upon receiving the written consent of the United States Department of Agriculture, Rural Development ("USDARD"), successor to the United States Department of Agriculture, Farmers Home Administration, as holder of the 1969 Bonds and the Prior Bonds.

OUTSTANDING BONDS

The District currently has two series of bonds outstanding (the "Outstanding Bonds") with debt payments extending past December 31, 1999, as shown by the table below:

Series	Original Par Amount	Current Par Outstanding	Final Maturity	Interest Rate
1969	\$881,000	\$360,000	01/01/09	4.750%
1987*	805,000	748,000	01/01/25	6.875

* The Series 1987 Bonds are to be defeased by the Series 1999 Bonds as described herein.

ADDITIONAL PARITY DEBT

The District reserves the right to add new waterworks facilities and/or related auxiliary facilities and/or to finance future extensions, additions, and/or improvements to the System by the issuance of one or more additional series of bonds to be secured by a parity lien on and ratably payable from the revenues of the District, provided in each instance that (i) the facility or facilities to be constructed from the proceeds of additional parity bonds are made a part of the System and the revenues thereof are pledged as additional security for the additional parity bonds and all Outstanding Bonds of the District, (ii) there shall have been certified by a certified public accountant that the annual net revenues of the System for the fiscal year preceding the year in which such parity bonds are to be issued were equal to at least 120% of the average annual debt service requirements for principal and interest payable on all outstanding bonds payable from the revenues of the System, including the Outstanding Bonds, the Prior Bonds, the Series 1999 Bonds, any other Parity Bonds then outstanding, plus the anticipated debt service requirements of any parity bonds then proposed to be issued and (iii) the District has complied with all its covenants under the Prior Bond Resolution (hereinafter defined).

DEBT SERVICE SCHEDULE

The following schedule sets forth the current annual debt service requirements of the Outstanding Bonds, the principal and interest payments for the Series 1999 Bonds, and the total debt service following the sale and delivery of the Series 1999 Bonds:

Fiscal Year	Current Debt Service			Projected Debt Service			
	Series 1969	Series 1987	Total Payments	Series 1969	Principal Amount	Interest Amount	Total Amount
2000	\$ 38,550	\$ 59,150	\$ 97,700	\$ 38,550	\$ 20,000	\$ 39,136	\$ 97,686
2001	45,675	59,566	105,241	45,675	15,000	46,173	106,848
2002	44,250	59,913	104,163	44,250	20,000	45,278	109,528
2003	42,825	59,225	102,050	42,825	20,000	44,253	107,078
2004	51,400	59,503	110,903	51,400	20,000	43,225	114,625
2005	49,500	59,713	109,213	49,500	20,000	42,195	111,695
2006	47,600	59,853	107,453	47,600	20,000	41,165	108,765
2007	45,700	60,891	106,591	45,700	20,000	40,135	105,835
2008	43,800	60,825	104,625	43,800	25,000	38,976	107,776
2009	41,900	60,691	102,591	41,900	25,000	37,689	104,589
2010		61,453	61,453		25,000	36,383	61,383
2011		62,078	62,078		30,000	34,918	64,918
2012		62,566	62,566		30,000	33,305	63,305
2013		62,916	62,916		30,000	31,670	61,670
2014		63,128	63,128		35,000	29,883	64,883
2015		63,203	63,203		35,000	27,958	62,958
2016		64,106	64,106		35,000	26,006	61,006
2017		64,803	64,803		40,000	23,888	63,888
2018		65,294	65,294		40,000	21,628	61,628
2019		66,544	66,544		45,000	19,226	64,226
2020		67,519	67,519		45,000	16,673	61,673
2021		68,219	68,219		50,000	13,965	63,965
2022		68,644	68,644		50,000	11,115	61,115
2023		69,759	69,759		55,000	8,123	63,123
2024		68,600	68,600		55,000	4,988	59,988
2025		67,234	67,234		60,000	1,710	61,710
Totals:	\$451,200	\$1,645,394	\$2,096,594	\$451,200	\$865,000	\$759,658	\$2,075,858

THE PROJECT

The District plans to issue Bonds in an amount sufficient to (i) discharge and defease the outstanding Prior Bonds; (ii) construct water line extensions (collectively, the "Project"); and (iii) pay the cost of issuance of the Bonds.

Refinancing Plan

Provisions for the defeasance of the Prior Bonds and included in the resolution adopted by the Board of Commissioners of the District on July 29, 1986 (the "Prior Bond Resolution") authorizing the issuance of the Prior Bonds. As a result of the Prior Bonds being held by USDARD, all or any of the Prior Bonds may be prepaid at any time at the outstanding principal amount thereof plus accrued interest without prepayment penalty.

Series	Original Par Amount	Current Par Outstanding	Final Maturity	Interest Rate	Call Price
1987	\$805,000	\$748,000	01/01/25	6.875%	100%

Expansion Project

The District plans to extend its water lines along Highway 21 for approximately 2.8 miles. This expansion will initially add 14 new customers at an estimated cost of \$60,000. The District plans to use a portion of the Bonds to fund a construction fund. Any shortfall in the construction fund will be paid from tap fees or surplus revenues of the District.

The District has contracted with the engineering firm of Kenvirons, Inc., Frankfort, Kentucky for the design of the Project. Construction of the Project will be publicly bid in accordance with state law.

USE OF PROCEEDS

The table below shows the sources and uses of the proceeds of the Bonds, other than any portions thereof representing accrued interest:

Sources	
Par Amount of Bonds	\$865,000.00
Premium/Discount	<u>(682.60)</u>
Total Source of Funds	\$864,317.40
Uses	
Deposit to Redemption Fund	\$759,341.71
Deposit to Construction Fund	53,353.11
Underwriter's Discount	16,622.58
Cost of Issuance	<u>35,000.00</u>
Total Use of Proceeds	\$864,317.40

THE BONDS

Dated Date and Payment Dates

The Bonds will be dated September 1, 1999, will bear interest from that date as described herein, payable on January 1 and July 1 of each year, commencing January 1, 2000 and semiannually thereafter (each an "Interest Payment Date"), and shall mature January 1, in the years and in the principal amounts set forth on the cover page of this Official Statement.

Registration, Payment and Transfer

The Bonds are to be issued only as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

The Bonds shall be payable at the principal office of Peoples Bank & Trust Company of Madison County, Berea, Kentucky (the "Paying Agent" and "Registrar") with respect to principal; interest or premium, if any, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public or private debts. All interest payments shall be payable by check or draft mailed to the registered Bondholders as of each record date. The record dates for January 1 and July 1 interest payment dates shall be the preceding December 15 and June 15, respectively.

Each registered Bond shall be transferable only upon the books of the Registrar, at the request of the registered owner thereof or by his authorized attorney, upon surrender thereof together with an assignment satisfactory to the Registrar duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any Bond, the District shall issue in the name of the transferee a new registered Bond or Bonds of the same aggregate principal amount and maturity as the surrendered Bond. If any Bond is mutilated, lost, stolen or destroyed, the District will execute and cause to be delivered a new Bond in accordance with the Resolution.

Optional Redemption

The Bonds maturing on or after January 1, 2011, will be subject to redemption prior to maturity at the option of the District, on any date on or after January 1, 2010, at the option of the District, in whole or in part, prior to maturity, in any order of maturity selected by the District, less than all of the single maturity to be selected in such manner as the Registrar may determine, from any money available therefore, at the redemption prices, expressed as percentages of the principal amount to be redeemed, set forth in the following table, plus accrued interest to the Redemption Date:

<u>Optional Redemption Period</u> <u>(Dates Inclusive)</u>	<u>Redemption Price</u>
January 1, 2010 through December 31, 2011	102%
January 1, 2012 through December 31, 2013	101%
January 1, 2014 and thereafter	100%

The Paying Agent shall mail a notice of the redemption of the Bonds to be redeemed, which notice shall specify the maturities of the Bonds to be redeemed, not less than thirty (30) days before the Redemption Date to the registered owners.

Mandatory Sinking Fund Redemption

The Term Bond due January 1, 2007 is subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on January 1, in the years and in the principal amounts as follows:

2005	\$20,000
2006	20,000

The remaining \$20,000 principal amount of Term Bond due January 1, 2007 is scheduled to be paid at maturity.

The Term Bond due January 1, 2009 is subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on January 1, in the years and in the principal amounts as follows:

2008	\$25,000
------	----------

The remaining \$25,000 principal amount of Term Bond due January 1, 2009 is scheduled to be paid at maturity.

The Term Bond due January 1, 2015 is subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on January 1, in the years and in the principal amounts as follows:

2013	\$30,000
2014	35,000

The remaining \$35,000 principal amount of Term Bond due January 1, 2015 is scheduled to be paid at maturity.

The Term Bond due January 1, 2019 is subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on January 1, in the years and in the principal amounts as follows:

2016	\$35,000	2017	\$40,000
2018	40,000		

The remaining \$45,000 principal amount of Term Bond due January 1, 2019 is scheduled to be paid at maturity.

The Term Bond due January 1, 2025 is subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on January 1, in the years and in the principal amounts as follows:

2020	\$45,000	2021	\$50,000
2022	50,000	2023	55,000
2024	55,000		

The remaining \$60,000 principal amount of Term Bond due January 1, 2025 is scheduled to be paid at maturity.

Additional Bonds

The District has reserved the right and privilege of issuing additional series of bonds from time to time, payable on a basis of parity with all other outstanding bonds of the District, in order to reconstruct, repair and improve the System; make, acquire, construct and install additions, extensions, betterments, or improvements thereto; acquire existing waterworks and water distribution systems from any person, if said waterworks and water distribution systems are revenue-producing and refund any bonds outstanding.

The issuance of additional parity bonds is subject to the condition, among other requirements, that there shall have been certified by a certified public accountant that the annual net revenues of the System for the fiscal year preceding the year in which such Parity Bonds are to be issued are equal to at least 120% of the average annual principal and interest payable on all outstanding bonds payable from the revenues of the System, including the Outstanding Bonds, the Prior Bonds, the Series 1999 Bonds, any other Parity Bonds then outstanding, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued.

In calculating annual net revenues the certified public accountant may adjust the computation to reflect any revisions in the schedule of rates or charges of the District approved by the PSC and any increase in the annual net revenues to be realized from the proposed extensions, additions, and/or improvements being financed (in whole or in part) by the additional parity bonds; provided, however, that all such adjustments shall be based upon and included in a certificate of a consulting engineer.

SECURITY AND SOURCES OF PAYMENTS

Sources of Payment

Under the terms of the Resolution, the Bonds are payable from and secured by a pledge of revenues and income derived from the ownership, operation, and use of services of the District's facilities, after the payment of all reasonable or necessary current operating and maintenance expenses of the District, as determined in accordance with generally accepted accounting principles.

Rate Covenant

The District covenants in the Resolution that it will at all times establish, enforce and collect rates, rentals, and charges for services rendered and facilities constituting the System (subject to such regulatory approval as may be required by law), in an amount after allowances for all operation and maintenance costs (but not including depreciation) of 1.20 times the average annual principal and interest payable on all of the then Outstanding Bonds payable from the revenues of the System.

Mortgage Lien

The Bonds are further secured by a statutory mortgage lien on all properties of the District constituting the System, granted to and in favor of the registered owners of the Bonds, and said properties shall remain subject to the lien until the payment in full of all principal and interest on the Bonds.

Depreciation and Debt Service Reserve Fund

As further security for the Bondholders and for the benefit of the District each month there shall be transferred from the Revenue Fund and deposited in the Depreciation and Debt Service Reserve Fund a certain sum until a minimum accumulated balance, as defined in the Resolution, is attained. Moneys in the Depreciation and Debt Service Reserve Fund may be withdrawn and used by the District for the purpose of paying the cost of unusual or extraordinary maintenance, repairs and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions or improvements and, when

necessary, for the purpose of making payments of principal and interest on the Outstanding Bonds and the Series 1999 Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

THE SYSTEM

Service Area

Customers

The District's service area consists of approximately five square miles in Madison County, Kentucky. Madison County is bounded to the west by Estill County, to the south by Jackson and Rockcastle Counties, to the east by Jessamine and Garrard Counties and to the north by Clark and Fayette Counties.

The following table reflects the number of general service customers served by the District.

FY Ending December 31	General Customers	Percentage Increase/Decrease
1998	3,172	5.17%
1997	3,016	6.27%
1996	2,838	9.28%
1995	2,597	4.21%
1994	2,492	5.28%
1993	2,367	5.58%
1992	2,242	2.37%
1991	2,190	—

Ten Largest Customers

The following table lists the ten largest customers and the number of gallons purchased by these customers as reported by the District for fiscal year 1998:

Customer	Gallons Purchased
NACCO	3,360,000
Hayes Wheels	2,680,200
Mooreland Farm	1,394,500
John Harrison	1,330,400
Day's Inn	1,099,100
Denny's	888,100
Holiday Inn	683,500
Shell Mart	678,200
Southern Express	537,400
Lee's Chicken	276,600

Gallons Sold

The following table list the number of gallons sold as reported by the District for the past ten (10) fiscal years:

FY Ended December 31	Gallons Sold	Percentage Increase/Decrease
1998	194,964,000	13.98%
1997	171,053,000	1.49%
1996	168,544,000	5.23%
1995	160,168,000	2.16%
1994	156,788,000	15.26%
1993	136,031,000	0.03%
1992	135,990,000	1.52%
1991	133,955,000	—

Water Supply and Water Quality

The District has an existing contract with the Berea College Water Utility, Berea, Kentucky which expires on December 28, 2024. The District is currently in the process of renewing this contract; however, the terms and conditions are not yet known. The current contract does not require a minimum purchase but it does require that the District purchase water exclusively from the Berea College Water Utility. The current rate is \$1.15 per 1,000 gallons.

According to the District, its water supply and water quality comply with all current requirements of the federal Safe Drinking Water Act and the District.

Water Rates and Charges

Coverage Test

As described above under "THE BONDS - Additional Bonds," the Resolution establishes certain coverage requirements which must be met as to the issuance of additional bonds.

The ProForma Minimum Net Annual Income and Revenue Calculation has been completed in accordance with the Resolution and is included herein as Appendix B.

Current Rates

The current water rates of the District for Fiscal Year 1999 are listed below:

Gallons	Rate (per 1,000 Gallons)
First 2,000 Gallons	\$11.426
Next 1,000 Gallons	5.623
Next 3,000 Gallons	5.213
Next 4,000 Gallons	4.753
Next 15,000 Gallons	3.873
Next 25,000 Gallons	3.573
Over 50,000 Gallons	3.023

Current Charges

The current charges of the District for Fiscal Year 1999 are listed below:

Description	Current Charges
Tap on Fees	\$417.00

INVESTMENT POLICY

The Southern Madison Water District will provide for the investment of its funds at the highest investment return with the maximum security of principal. The investment policy will be applicable to the following funds:

1. Construction Fund
2. Revenue Fund
3. Operation and Maintenance Fund
4. Sinking Fund
5. Depreciation and Debt Service Reserve Fund

The funds of the District available for investment shall be invested in accordance with this policy and all applicable state statutes only in the following types of investment instruments:

1. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian and may be accomplished through repurchase agreement reached with sources including but not limited to, national or state banks chartered in the Commonwealth of Kentucky.
2. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to:
 - a. United States Treasury;
 - b. Export-Import Bank of the United States
 - c. Farmers Home Administration
 - d. Government National Mortgage Association; and
 - e. Merchant Marine Bonds.
3. Obligations of any corporation of the United States government, including but not limited to:
 - a. Federal Home Loan Mortgage Corporation;
 - b. Federal Home Credit Banks;
 - c. Bank for Cooperatives;
 - d. Federal Intermediate Credit Banks;
 - e. Federal Land Banks;
 - f. Federal Home Loan Banks;
 - g. Federal National Mortgage Association; and
 - h. Tennessee Valley Authority.

4. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240(4).

No investment shall be purchased by the District on a margin basis or through the use of any similar leveraging technique. No more than 20% of the District's investment portfolio shall be invested in a single security type or with a single financial institution. All investments and cash maintained in any financial institution named as a depository must be collateralized at a level of 103% of market value of principal, plus accrued interest. Collateral shall be limited to the types of instruments authorized as collateral for state funds in KRS 41.240.

SERIES 1999 BOND RESOLUTION

The following is a summary of certain of the terms and provisions of the Resolution, and is qualified in its entirety by reference to the Resolution. The following summary supplements the information set forth in "The Bonds" and should be read in conjunction therewith. See "Introduction" as to the availability of copies of the Resolution.

Registration, Payment and Transfer

Form

The Bonds will be in fully registered form in denominations of \$5,000 and any authorized multiple thereof. The District will maintain at the principal corporate trust office of the Registrar and Paying Agent books for the registration and transfer of bonds.

Payment of Principal

Principal of and interest on the Bonds will be payable when due without deduction for the services of the Registrar and Paying Agent. Principal of and redemption premium on the Bonds will be paid to the registered owner thereof upon presentation and surrender thereof at the principal corporate trust office of the Registrar and Paying Agent.

Payment of Interest - Regular Record Dates

The interest on any bonds which is payable, and is punctually paid or duly provided for, on any interest payment date will be paid by check or draft mailed by the Paying Agent to the person in whose name such bond was registered on the registration books at the close of business on the regular record date for such interest payment date and will be mailed to such person at his address as it appears on the registration books. The regular record date for any interest payment date is the fifteenth (15th) day of the month next preceding the month in which the interest payment date occurs.

Exchange and Transfer

The bonds shall be negotiable as provided by the Resolution, subject to the provisions for registration and transfer contained in the Resolution. The Registrar shall register or cause to be registered therein and permit to be transferred thereon any Bond entitled to registration or transfer under such reasonable regulations as it or the District may prescribe.

Pledge of Revenues

Bonds, together with such additional bonds ranking on a parity therewith that may be issued and outstanding from time to time under the restrictions and provisions of the Resolution, do not constitute an indebtedness of the District within the meaning of the Constitution of Kentucky, but are payable as to principal, interest and premium, if any, solely from and are secured by a pledge of revenues and income resulting from the collection of water rates, rentals and charges for the services rendered by the facilities of the District. A statutory mortgage lien is created and granted to and in favor of the registered owner or owners of such bonds and said properties will remain subject to the statutory mortgage lien until the payment in full of the principal and interest on such bonds.

Application of Revenues

Establishment of Funds

The Resolution establishes the following funds (the "Funds") for the deposit and application of Bond proceeds and System revenues:

1. Construction Fund
2. Revenue Fund
3. Operation and Maintenance Fund
4. Sinking Fund
5. Depreciation and Debt Service Reserve Fund

All moneys held in any of the above special Funds shall be kept apart from all other funds of the District and shall be deposited with a bank or banks which are members of FDIC, and all such cash deposits which cause the aggregate deposit of the District in any one bank to be in excess of the amount insured by FDIC shall be secured by a surety bond or bonds or by pledge of direct obligations of or guaranteed by the United States Government having a market value equivalent to such deposit. Any amounts in the Sinking Fund in excess of the amount of interest and principal becoming due in the next twelve (12) months, or in the Depreciation and Debt Service Reserve Fund, may be invested in direct obligations of or guaranteed by the United States Government having a maturity date or being subject to redemption at the option of the holder within three years.

A further description of each of the Funds follows:

Construction Fund

The Resolution provides that there shall immediately be paid to USDARD an amount sufficient to pay interest on and principal of the Prior Bonds, and the amount to be deposited into the Construction Account shall be reduced by such amount so paid. Also, at the time of delivery of the Bonds, there shall be paid all amounts then due and payable in connection with the costs of the Project and in connection with the issuance of the Bonds.

If and to the extent that the proceeds of the Bonds shall be in excess of the amount necessary to pay the interest, principal, and costs referred to above, such excess amount shall immediately be deposited in the "Southern Madison Water District Construction Account" (the "Construction Account") created by the Resolution, which shall be established at the Depository Bank. There shall also be deposited in the Construction Account the waterworks connection charges, if any, to provide the total costs of the Project.

Revenue Fund

All of income and revenue of the System are required to be deposited promptly in the Revenue Fund. Income and revenue includes (i) all water service rates, rentals and charges imposed by the District, (ii) all interest earned and gains realized on investments, unless the Resolution specifically requires such interest earned or gains

realized to remain in a particular Fund or Account, provided that any interest or gains on funds held in escrow by a trustee for the payment of previously outstanding bonds shall not be included, and (iii) other income received by the District, if any, from any agency of government, both Federal and State, as representing income or operating subsidies, if any, as distinguished from capital grants, to the extent not otherwise required to be treated and applied.

The designated depository is required to make monthly transfers from the moneys in the Revenue Fund to the following Funds and Accounts and in the following amounts and order of priority:

Sinking Fund. There shall be transferred in each month from said Revenue Fund and deposited into said Sinking Fund on or before the 20th day of each month, for payment of principal and interest on the Bonds, a sum equal to one-sixth (or such larger amount as is necessary) of the next succeeding interest installment to become due on the Bonds then outstanding, and beginning in the initial month (being the month in which interest shall last be payable out of the sum set aside into the Sinking Fund as capitalized interest) a sum equal to one-twelfth (or such larger amount as is necessary) of the principal of any Bonds maturing on the next succeeding January 1.

Operation and Maintenance Fund. There shall be transferred monthly from the Revenue Fund, as and when revenues of the System are available in said Revenue Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Fund shall not be in excess of the amount required to cover anticipated expenditures for a two-month period pursuant to the annual budget.

Depreciation and Debt Service Reserve Fund. There shall be transferred from the Revenue Fund into the Depreciation and Debt Service Reserve Fund amounts on a monthly basis until there is accumulated in such Fund a minimum requirement as specified in the Resolution, after which no further deposits need be made into such Fund except to replace withdrawals.

Excess Funds. There shall be transferred within sixty days after the end of each calendar year the balance of excess funds in the Revenue Fund on such date to the Depreciation and Debt Service Reserve Fund to be earmarked for the purpose of paying or financing the cost of extensions, additions and/or improvements to the project, or, at the option of the District, such excess funds may be applied to the maximum extent feasible, to the purchase or redemption of outstanding bonds.

Sinking Fund

The Resolution provides that there shall be transferred in each month from the Revenue Fund and deposited into the Sinking Fund on or before the 20th day of each month, for payment of principal and interest on the Bonds, a sum equal to one-sixth (or such larger amount as is necessary) of the next succeeding interest installment to become due on the Bonds then outstanding, and a sum equal to one-twelfth (or such larger amount as is necessary) of the principal of any Bonds maturing on the next succeeding January 1.

If the District for any reason shall fail to make any monthly deposits as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing month or months, which amount shall be in addition to the monthly deposit otherwise required during succeeding month or months. Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the Bonds falling due and interest on outstanding Bonds, such excess may be used for redemption prior to maturity of Bonds.

Operation and Maintenance Fund

There shall be transferred monthly from the Revenue Fund, as and when revenues of the System are available in said Revenue Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Fund shall not be in excess of the amount required to cover anticipated expenditures for a two-month period pursuant to the annual budget.

Depreciation and Debt Service Reserve Fund

The Depreciation and Debt Service Reserve Fund is available and is to be utilized to make unforeseen major repairs and replacements and to pay the cost of construction of additions, extensions, betterments and improvements of the System which will either increase income and revenues or provide a higher degree of service. Moneys in the Depreciation and Debt Service Reserve Fund may be withdrawn and used by the District, upon appropriate certification by its Board of Commissioners, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and of paying the cost of constructing extensions, additions and improvements to the System, which will either enhance its revenue-producing capacity or will provide a higher degree of service and, when necessary, for the purpose of making payments of principal and interest on the Bonds if the moneys on deposit in the Sinking Fund are not sufficient to make such payments. The District currently has on hand \$120,000 in the Depreciation and Debt Service Reserve Fund. All funds in the Sinking Fund and in the Reserve Fund shall be deposited in the depository bank, or such portion of said amounts on deposit in said respective Funds as is designated by the Board of Commissioners shall be invested for the benefit of such respective Funds in time deposits, savings accounts, or U.S. obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for meeting interest or principal payments, to mature or be called, provided that to the extent that any amounts on deposit in said bank shall cause the total deposits of the District in said bank to exceed the amount insured by the FDIC, the same shall be continuously secured by a valid pledge of U.S. obligations, having an equivalent market value, in conformity with KRS 66.480.

Redemption Provisions

The Resolution provides that, whenever bonds are to be redeemed, the Paying Agent shall give notice for the redemption of bonds determined by the District to be redeemed. Notice shall be given by registered mail only, postage prepaid, at least thirty (30) days before the redemption date, addressed to the registered holder at the address shown in the records of the Registrar. After such notice has been given, the bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated in an amount equal to the principal amount thereof, premium, if any, plus interest accrued and unpaid to the redemption date. If on the redemption date, moneys for the redemption of all the bonds or portions thereof of any series and maturity to be redeemed, together with interest to the redemption date, shall be held by any paying agent so to be available therefor on such date and if notice shall have been given as aforesaid, then, from and after the redemption date, interest on such bonds or portions thereof shall cease to accrue. If less than all outstanding bonds of a series and maturity are to be redeemed, the Registrar shall select, in such manner as the Registrar shall determine, each \$5,000 of the principal amount of bonds to be redeemed.

Issuance of Notes, Additional Bonds and Other Obligations

The Resolution provides that the District shall not, so long as any of the Prior Bonds and/or the Bonds (and any bonds ranking on a parity) are outstanding, issue any additional bonds payable from the revenues of the System unless the security and/or pledge of the revenues and statutory mortgage lien to secure such additional bonds is/are made inferior and subordinate in all respects to the security of the Bonds and any Parity Bonds.

The District expressly reserves the right under the Resolution at any time or times to issue its bonds or other obligations payable from the revenues of the System and not ranking on a basis of equality with the Bonds,

without any proof of previous earnings or net revenues, provided that the consent of the USDARD must be obtained prior to the issuance of any inferior bonds so long as the USDARD holds any of the Prior Bonds, the Bonds, or any Parity Bonds, and provided further that (after the initial completion of the Project) such inferior bonds may be issued only for the purpose of providing for future extensions, additions, and/or improvements to the System, and only in express recognition of the priorities, liens, and rights created and existing for the security, source of payment, and protection of the Prior Bonds, the Bonds, and any Parity Bonds; provided further, that nothing in this section is intended to restrict or shall be construed as a restriction upon, the ordinary refunding of the Prior Bonds, the Bonds and any other Parity Bonds.

Issuance of Parity Bonds

The Resolution provides that in the event that the cost of completion of the construction of the Project shall exceed the moneys available to the District therefor from any and all sources, the District shall have the right, if necessary, to provide for such excess, and only such excess, through the issuance of Parity Bonds, provided the District has obtained a certification from the engineers for the Project to the effect that it is necessary to issue the desired amount of additional Parity Bonds in order to enable the District to pay the cost (not otherwise provided) of the completion of the Project, and provided the District has complied with the covenants contained below or has obtained:

- (a) the consent of USDARD as the owner of the Prior Bonds at that time or the consent of any other owner(s) of the Prior Bonds, and
- (b) The consent (i) of USDARD if it is the purchaser of the Bonds, or (ii) of the owners of at least seventy-five percent (75%) in principal amount of the Bonds outstanding, if the Bonds have been issued, sold, and delivered and are held by owners other than USDARD.

The Resolution provides that the District may finance future extensions, additions, and/or improvements with additional Parity Bonds, but only under the conditions taking into account the issuance of the Bonds, as follows:

- (a) The facility or facilities to be constructed from the proceeds of the additional Parity Bonds is or are made a part of the System and its or their revenues are pledged as additional security for the additional Parity Bonds and for the outstanding Prior Bonds and Bonds.
- (b) The District is in compliance with all covenants and undertakings in connection with all of the bonds then outstanding and payable from the revenues of the System or any part thereof.
- (c) The annual net revenues (defined as gross revenues less essential operation and maintenance expenses) of the then existing System for the fiscal year preceding the year in which such Parity Bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent certified public accountant to equal at least one hundred twenty percent (120%) of the average annual principal and interest payable on all outstanding bonds payable from the revenues of the System, including such requirements of the Prior Bonds, the Bonds, any Parity Bonds then outstanding, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional bonds to be issued shall, regardless of whether such additional bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.
- (d) The "annual net revenues" referred to above may be adjusted for the purpose of the foregoing computations to reflect:
 - (1) any revisions in the schedule of rates or charges being imposed at the time of any such additional Parity Bonds, and

- (2) any increase in the "annual net revenues" to be realized from the proposed extensions, additions, and/or improvements being financed (in whole or in part) by such additional Parity Bonds;

provided all such adjustments shall be based upon and included in a certification of an independent consulting engineer.

- (e) Compliance with (a) through (d) shall not be necessary for the issuance of Parity Bonds if the District has obtained (1) the written consent of USDARD for the issuance of such Parity Bonds, if USDARD is the owner of any of the Prior Bonds or any of the Bonds at the time of issuance of such Parity Bonds; (2) the written consent of the owners of all of the then outstanding Prior Bonds, and (3) the written consent of the owners of three-fourths in amount of the then outstanding Bonds and any other Parity Bonds. If the District obtains the written consent of the owners of all the Bonds and all of the Prior Bonds outstanding against the System, no other prerequisite need be complied with by the District in order to issue Parity Bonds.

In the event parity bonds are issued in the future, the District is required to (i) adjust the monthly deposits into the Sinking Fund in the manner prescribed by the Resolution to reflect the annual debt service on the additional parity bonds, and (ii) adjust the prescribed amount to be accumulated in the Depreciation and Debt Service Reserve Fund in accordance with the provisions of the Resolution.

Certain Covenants of the District

Among other covenants made by the District in the Resolution are those related to the following matters:

Tax Covenant. The District has covenanted to do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the District on the Bonds shall, for the purposes of Federal income taxation, be exempt from income taxation under any valid provision of law. The District shall not permit at any time or times any of the proceeds of the Bonds or other funds of the District to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in subsection (c) of Section 103 of the Internal Revenue Code as then in effect (now Section 103(b)(2) and 148 of the Internal Revenue Code of 1986) and to be subject to treatment under subsection (c) (1) of such Section, as an obligation not described in subsection (a) (1) of such Section, unless under any valid provisions of the law hereafter enacted, the interest paid by the District on the Bonds shall be excludable from the gross income of the recipients thereof for Federal income tax purposes without regard to compliance with the provisions of subsection (c) of Section 103 of the Internal Revenue Code (now Section 103(b)(2) and 148 of the Internal Revenue Code).

In order to assure compliance with such covenant, the District, from the date of adoption of the Resolution, has covenanted that it shall not:

- (a) make any investment in connection with the System that produces a yield in excess of such applicable maximum yield as may be permitted by the Internal Revenue Code, and
- (b) invest or direct any depository to invest moneys in any such Fund or Account in obligations that produce a yield in excess of such applicable maximum yield as may be permitted by the Internal Revenue Code.

The District further covenants that prior to the issuance of any series of bonds the District shall certify by issuance of a certificate that on the basis of the facts, estimates and circumstances in existence on the date of issue of such series it is not expected that the proceeds thereof will be used in a manner that would cause such obligations to be arbitrage bonds.

Accounts and Reports. The District shall keep complete and accurate books of record and accounts relating to the System, and all Funds and Accounts established by the Resolution, which are subject at reasonable times to the inspection of the holders of any of the Outstanding Bonds or of the Series 1999 Bonds, or their authorized representatives.

General Compliance. The District has covenanted to faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky, Chapters 74 and 106, inclusive, of the Kentucky Revised Statutes, and by the terms and provisions of the Resolution.

Rates and Charges. The District has covenanted to at all times establish, enforce and collect rates, rentals and charges for the services and facilities afforded by the District's works and facilities, the same to be adequate to operate and maintain the System, provide necessary allowances for depreciation and for extensions and additions, and to timely retire all outstanding bonds and interest thereon. Such rates must also be adequate to accumulate and maintain all reserves as provided in the Resolution, and to provide, after fulfillment of all contractual obligations required of the District incident to the bonds, including accumulation and maintenance of all reserves, and after payment of operating and maintenance costs of the District, 1.20 times coverage of annual principal, interest and sinking fund requirements on all bonds. If necessary, such rates, rentals and charges must be adjusted from time to time in order to comply with the Resolution (see "Security and Sources of Payment - Rate Covenant").

Budgets. Not later than sixty (60) days after the beginning of each fiscal year, so long as any bonds authorized or permitted to be issued by the Resolution are outstanding, the District shall adopt an annual budget of current expenses covering its fiscal operations for the ensuing fiscal year and will promptly file a copy of each such Budget, and any amendments thereto, in the office of the Secretary of the District. Copies of same shall be furnished to any bondholder upon request. The District may file amendments of the Annual Budget for the remainder of the calendar year. The District shall not incur current expenses in excess of the amounts provided therefor in the annual budget as originally prepared or as amended, except upon resolution duly adopted by the Board of Commissioners determining that such expenses are necessary in order to operate and maintain the System.

No Decrease in Rates, Rentals and Charges. The District has covenanted that it will not at any time make any reduction in any prevailing schedule of rates, rentals and charges without first obtaining the written determination of an independent consulting engineer that such adjusted annual net revenues anticipated from such proposed rate decrease are equal to not less than 120% of the average annual debt service requirements for principal and interest on all of the then Outstanding Bonds payable from the Revenues of the System.

Annual Audit. The District has covenanted that it will, within sixty (60) days after the end of each fiscal year cause an audit to be made of the books of record and accounts pertinent to the District, and a report to be issued by an independent certified public accountant reflecting in reasonable detail the financial condition and results of operations of the District, including the status of the several Funds created by the Resolution, the status of required insurance and fidelity bonding as provided by the Resolution, all in accordance with generally accepted governmental accounting principles. A copy of such audit must be submitted to the Board of Commissioners of the District, and a copy of same shall be filed in the office of the District where it will be available to any bondholder upon written request.

Insurance of Facilities and Fidelity Bonding of Personnel. The District has covenanted to keep all buildings, machinery and equipment constituting any part of the System insured as provided in the Resolution, and to cause the Treasurer of the District or other person having custody of any moneys administered under the provisions of the Resolution to be bonded at all times in an amount at least equal to \$200,000. The District has further covenanted to carry public liability, vehicular insurance and property damage insurance.

Statutory Mortgage Lien. Pursuant to the provisions of Chapter 74 of the Kentucky Revised Statutes, the District has recognized for the further protection of the holders of the bonds a statutory mortgage lien upon the System (see "Security and Sources of Payment - Mortgage Lien").

Defaults and Remedies

The Resolution declares each of the following events to be an "Event of Default":

- (1) default by the District in the payment of any principal installment or premium, if any, on any bond when due;
- (2) default by the District in the payment of any installment of interest on the bonds when due;
- (3) failure or refusal by the District to comply with the Act pursuant to which the District was created, or default in the performance or observance of any other of the covenants, agreements or conditions contained in the Resolution, any Prior Bond Resolution, any supplemental resolution or the bonds, and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by the holders of not less than five percent (5%) in principal amount of the outstanding bonds.

The Resolution provides that upon the happening and continuance of any event of default, the holders of not less than twenty-five percent (25%) in principal amount of the outstanding bonds may proceed, in their own name, subject to certain provisions in the Resolution, to protect and enforce the rights of the bondholders by such of the following remedies as such bondholders, being advised by counsel, shall deem most effectual, including the following:

- (a) enforce by mandamus or other suit, action or proceedings at law or in equity all rights of the bondholders, including the right to require the District to enforce, collect and receive water rates, rentals and charges adequate to carry out the covenants and agreements of the District as to production of income, and to require the District to carry out any other covenant or agreement with bondholders and to perform its duties under the Act;
- (b) bring suit upon the bonds;
- (c) require the District by action or suit to account as if it were the trustee of an express trust for the holders of the bonds;
- (d) enjoin by action or suit any act or things which may be unlawful or in violation of the rights of the holders of the bonds;
- (e) by action or suit in equity, seek the appointment of a receiver who shall take charge of and administer the affairs of the District;
- (f) declare all bonds due and payable, and if all default shall be made good (excepting acceleration provisions), then with the written consent of not less than twenty-five percent (25%) in principal amount of the holders of outstanding bonds, to annul such declaration and its consequences; and
- (g) in the event that all bonds are declared due and payable, and a receiver is appointed, to sell all investments and all other assets of the District (to the extent not theretofore set aside for redemption of bonds for which call has been made), and to cause the receiver to take over the System and operate same in the name of the District for the use and benefit of the bondholders.

No Individual Liability

All covenants, stipulations, promises, agreements and obligations of the District in the Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the District and not of any member, officer, director or employee of the District in his individual capacity, and no recourse shall be had for the payment of the principal, premium, if any, or interest on the bonds or for any claims based thereon or on the Resolution against any member, officer, director or employee of the District or any natural person executing the bonds.

YEAR 2000 COMPLIANCE

The inability of many computer programs to distinguish between the years 2000 and 1900 (the "Year 2000 Problem") could disrupt the ability of the District and others to provide certain services and/or could increase the cost of providing such services. For example, the Year 2000 Problem could potentially impede or make more costly (i) the District's receipt, collection or application of revenues and compliance with ongoing disclosure requirements and with restrictions applicable to investment yield and rebate, and (ii) the timely payment of principal of and interest on the Bonds.

The District has identified the areas of its operations that it believes may be affected by what is commonly referred to as the "Y2K" problem. Management believes the most material area is customer billing. The District uses computers for its billing and has received a letter from the District's software vendor stating that the District's hardware and software systems are Year 2000 compliant. However, because of the unprecedented nature of the Y2K problem, its effects and the success of related remediation efforts cannot be fully determined until after December 31, 1999.

The following statement has been provided by People Bank & Trust Company of Madison County, a subsidiary of the Whitaker Bank Corporation of Kentucky, the Registrar and Paying Agent, but has not been independently verified:

"Whitaker Bank Corporation of Kentucky (WBC), a multibank holding company headquartered in Lexington, Kentucky, announced...announced the successful completion of Y2K testing of its mission-critical internal core processing system.

WBS has reached several key milestones in line with those set forth by the Federal Financial Institutions Examination Council (FFIEC). These include: establishment of a Year 2000 Compliance Plan intended to ensure a consistent company wide effort coordinated to address the Y2K issues; completed a corporate wide inventory of applications and equipment; conducted an assessment of inventoried applications and equipment to determine Year 2000 impacts; completed an initial Year 2000 risk assessment on selected portions of our client base; initiated and continues to conduct an employee awareness program on Year 2000 issues; Provided numerous civic organizations and surrounding communities with awareness programs; successfully completed testing and redemption of internally supported inventoried hardware and software application, including the Corporations core processing system; continued its efforts on managing relationships with third party vendors and developing contingency plans in the event that such vendors fail due to Year 2000 issues; and continues to test all new software and equipment purchased for Year 2000 compliance.

Testing of mission critical internal core processing system included 13 separate date changes as identified by the FFIEC. These dates ranged from 1999 to 2001. Test results, which have been documented showed proper functioning of hardware and software, stability in data, and accuracy in all calculations and balances.

WBC has also requested that its third party vendors complete required testing and remediation of externally supported inventoried hardware and software applications no later than June 30, 1999.

WBC has dedicated over 25 project officers and outside third-party consultants to managing this project. To date, there has been no significant financial impact on WBC associated with the Year 2000 project, and the Corporation does not expect any material impact to its financial condition or results of operation throughout the project."

LEGAL MATTERS

Legal matters incident of the authorization and issuance of the Bonds are subject to the approval of Wyatt, Tarrant & Combs, Bond Counsel, Louisville, Kentucky. The form of the approving legal opinion of Bond Counsel is attached hereto as Appendix D. Certain legal matters will be passed upon for the District by its counsel, Burnam, Thompson, Weldon, Simons and Dunlap, P.S.C., Richmond, Kentucky.

Bond Counsel has reviewed legal matters incident to those sections of the Official Statement entitled the "The Bonds," "Security and Sources of Payment," "Series 1999 Resolution," "Continuing Disclosure" and "Tax Exemption," and is of the opinion that the statements contained in such identified sections are, as to law and legal conclusions, correct and that such sections fairly summarize the contents of documents therein described. Bond Counsel assumes no responsibility for the accuracy or completeness or other statements contained in this Official Statement.

ABSENCE OF MATERIAL LITIGATION

There is no controversy or litigation of any nature now pending or threatened, restraining or enjoining the issuance, sale, execution or delivery of the Bonds; or in any way contesting or affecting the validity of such Bonds, or any proceedings of the District taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds, or the due existence or powers of the District.

TAX EXEMPTION

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Bonds is excludable from gross income for Federal income tax purposes. Bond Counsel also of the opinion that interest on the Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal alternative minimum tax. Furthermore, Bond Counsel is of the opinion that the Bonds and interest thereon are exempt from income taxation and ad valorem taxation by the Commonwealth of Kentucky and any political subdivision thereof.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Bonds. The District covenanted to comply with certain restrictions designated to ensure that interest on the Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Bonds being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely effect the tax status of the interest on the Bonds.

Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted herein.

Although Bond Counsel is of the opinion that interest on the Bonds will be excludable from gross income for Federal and Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other item of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Bonds on the tax liabilities of the individual or entity.

For example, although Bond Counsel for the Bonds is of the opinion that interest on the Bonds will not be a specific item of tax preference for the alternative minimum tax, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Receipt of tax exempt interest, or ownership or disposition of the Bonds, may result in other collateral Federal, state or local tax consequences for certain taxpayers, including without limitation increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing federal tax liability of certain insurance companies under Section 832 of the Code, increasing federal tax liability and affecting the status of S corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or Railroad Retirement benefits under Section 86 of the Code and limiting the use of the earned income credit under Section 32 of the Code that might otherwise be available. Ownership of any Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of the Bonds in a state other than Kentucky or subject to tax in a state other than Kentucky may result in income or other tax liabilities being imposed by such states of their political subdivisions based on the interest or other income from the Bonds.

The District has designated the Bond as "qualified tax-exempt obligations" under Section 265 of the Code.

FINANCIAL ADVISOR

Bidders are advised that Ross, Sinclair & Associates, Inc. has been employed as Financial Advisor in connection with the issuance of the Bonds. Its fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery thereof. Ross, Sinclair & Associates, Inc. may submit a bid for the purchase of the Bonds at the time of the advertised public sale, either individually or as a member of a syndicate organized to submit a bid for the purchase of the Bonds.

CONTINUING DISCLOSURE

In the opinion of Bond Counsel, the District is exempt from the application of SEC Rule 15c2-12 by reason of the fact that the principal amount of the Bonds does not exceed \$1,000,000.

Financial information regarding the District may be obtained from the General Manager of the District, 207 N. Dogwood Drive, Berea, Kentucky 40403, (606) 986-9031.

CONCLUDING STATEMENT

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact, and no representation is made that any such statements have or will be realized. Information in this Official Statement has been derived by the District from official and other sources and believed by the District to be accurate and reliable.

Information other than that obtained from official records of the District has not been independently confirmed or verified by the District or the Financial Advisor.

Neither this Official Statement nor any statement that may have been or that may be made orally or in writing is to be construed as or as part of a contract with the original purchasers or subsequent holders of the Bonds.

This Official Statement has been duly prepared and delivered by the District and executed for and on behalf of the District by its Chairman.

SOUTHERN MADISON WATER DISTRICT

By *Randy Tchel*
Chairman

APPENDIX A

SOUTHERN MADISON WATER DISTRICT
WATERWORKS REFUNDING AND IMPROVEMENT
REVENUE BONDS,
SERIES 1999

Demographics

MADISON COUNTY, KENTUCKY

Richmond, the home of Eastern Kentucky University, is situated in central Kentucky's Blue Grass Region and is the county seat of Madison County. Richmond is located 25 miles southeast of Lexington, Kentucky; 101 miles south of Cincinnati, Ohio; and 148 miles north of Knoxville, Tennessee.

Madison County covers a land area of 441 square miles and had an estimated 1997 population of 65,343 persons. Richmond had an estimated 1997 population of 26,227.

The Economic Framework

Madison County firms employed 22,908 persons in 1996. Manufacturing firms in the county reported 5,383 employees; wholesale and retail trade provided 6,276 jobs; 4,517 people were employed in service occupations; state and local government accounted for 6,294 employees; and contract construction firms provided 753 jobs.

Labor Supply

There is a current estimated labor supply of 118,807 persons available for industrial jobs in the labor market area. In addition, from 1999 through 2003, 36,327 young persons in the area will become 18 years of age and potentially available for industrial jobs.

Transportation

Two interchanges of Interstate 75 serve Richmond, as well as U.S. Highways 25 and 421, and Kentucky Routes 52 and 1295. Twenty-nine common carrier trucking companies provide interstate and/or intrastate service to Richmond. CSX Transportation provides main line rail service to Richmond. The nearest scheduled commercial airline service is available at Lexington, Kentucky's Blue Grass Airport, 29 miles northwest of Richmond. The Madison Airport, six miles south of Richmond, maintains a 4,000-foot paved runway and offers charter service.

Power and Fuel

Kentucky Utilities Company provides electricity to Richmond and portions of Madison County. Madison County also receives electricity from Blue Grass Rural Electric Cooperative Corporation and Clark Rural Electric Cooperative. Richmond Water, Gas and Sewerage Works provides natural gas service to Richmond. Delta Natural Gas Company, Inc., also serves portions of Richmond and Madison County.

Education

The Madison County School System provides primary and secondary public education to Madison County. Three nonpublic schools also operate in Richmond. Eastern Kentucky University, a public institution of higher learning, is located in Richmond, and had a Fall 1996 enrollment of 16,060 students. Vocational training is available at the Madison County Area Technology Center in Lexington, 25 miles northwest of Richmond. Eastern Kentucky University also provides vocational training and facilities for area industry.

LOCAL GOVERNMENT

Structure

Richmond is governed by a mayor, four commissioners, and a full-time city manager. The mayor is elected to a four-year term, while the commissioners each serve two-year terms. Madison County is governed by a county judge/executive and four magistrates. Each county official is elected to a four-year term.

Planning and Zoning

City agency - Richmond Planning and Zoning Commission

Zoning enforced - Within the corporate limits of Richmond

Subdivision regulations enforced - Within the city and five miles beyond the corporate limits of Richmond

Local codes enforced - Building and housing codes

Mandatory state codes enforced - Kentucky Plumbing Code, National Electric code, Kentucky Boiler Regulations and Standards, Kentucky Building Code (modeled after BOCA code)

Local Fees and Licenses

Madison County, excluding the cities of Richmond and Berea, levies a one percent occupational license tax on wages, salaries, and commissions of individuals and on net profits of businesses. The City of Richmond levies a two percent occupational license tax on wages, salaries, and commissions of individuals and on net profits of businesses located within its corporate limits. Taxpayers employed within the city boundaries pay only the city tax. There is a \$4,000 maximum tax for businesses located within the city. Business license fees in Richmond range from \$10 to \$600 per year.

Property Taxes

The Kentucky Constitution requires the state to tax all classes of taxable property, and state statutes allow local jurisdictions to tax only a few classes. All locally taxed property is subject to county taxes and school district taxes (either a county school district or an independent school district). Property located inside of city limits may also be subject to city property taxes.

Special local taxing jurisdictions (fire protection districts, watershed districts, and sanitation districts) levy taxes within their operating areas (usually a small portion of community or county).

Property assessments in Kentucky are at 100% fair cash value. A 15% reduction is automatically granted for accounts receivable.

LABOR MARKET STATISTICS

The Richmond Labor Market Area includes Madison County the adjoining Kentucky counties of Clark, Estill, Fayette, Garrard, Jackson, Jessamine, and Rockcastle.

POPULATION

<u>Area</u>	<u>1997*</u>	<u>1996*</u>	<u>1990</u>	<u>1980</u>
Labor Market Area	558,395	553,041	508,801	467,059
Richmond	N/A	26,227	21,183	21,705
Madison County	65,343	64,202	57,508	53,352

* Population estimates

Source: U.S. Department of Commerce, Bureau of the Census.

POPULATION PROJECTIONS

<u>Area</u>	<u>2020</u>	<u>2010</u>	<u>2000</u>
Labor Market Area	701,735	650,769	591,559
Madison County	79,965	74,475	67,802

Source: University of Louisville, Urban Studies Center, State Data Center.

EDUCATION

Public Schools

	<u>Madison County</u>
Total Enrollment (Fall, 1997)	8,128
Pupil-Teacher Ratio (1996-97)	15.5-1
Percent High School Graduates to College (1996-97)	57
Expenditures Per Pupil (1996-97)	4,576

Vocational Training

Vocational training is available at both the state vocational-technical schools and the area vocational education centers. The state vocational-technical schools are post-secondary institutions. The area vocational education centers are designed to supplement the curriculum of high school students. Both the state vocational-technical schools and the area vocational education centers offer evening courses to enable working adults to upgrade current job skills.

Arrangements can be made to provide training in the specific production skills required by an industrial plant. Instruction may be conducted either in the vocational school or in the industrial plant, depending upon the desired arrangement and the availability of special equipment.

Bluegrass State Skills Corporation

The Bluegrass State Skills Corporation, an independent public corporation created and funded by the Kentucky General Assembly, provides programs of skills training to meet the needs of business and industry from entry level to advanced training, and from upgrading present employees to retraining experienced workers.

The Bluegrass State Skills corporation is the primary source for skills training assistance for a new or existing company. The Corporation works in partnership with other employment and job training resources and programs, as well as Kentucky's economic development activities, to package a program customized to meet the specific needs of a company.

<u>Vocational School</u>	<u>Location</u>	<u>Cumulative Enrollment 1996-1997</u>
Madison County Area Technology Ctr.	Richmond, KY	495
Central Kentucky Regional Tech. Ctr.	Lexington, KY	771

Colleges and Universities

<u>Name</u>	<u>Location</u>	<u>Enrollment (Fall 1996)</u>
Eastern Kentucky University	Richmond, KY	15,425
Berea College	Berea, KY	1,515
Lexington Community College	Lexington, KY	5,500
Transylvania University	Lexington, KY	976
University of Kentucky	Lexington, KY	24,061
Asbury College	Wilmore, KY	1,167
Georgetown College	Georgetown, KY	1,503
Midway College	Midway, KY	980
Centre College	Danville, KY	965

FINANCIAL INSTITUTIONS

Financial Institution	Deposits	Total Assets
Bank One (Branch)	\$4,699,250,000	\$5,738,194,000
Berea National Bank	62,808,000	76,370,000
Central Appalachian Peoples Federal Credit Union	N/A	5,535,000
Citizens Guaranty Bank	66,114,000	75,239,000
Community Trust Bank (Branch)	1,339,745,000	1,836,105,000
Cumberland Valley National Bank	283,207,000	333,753,000
First Southern National Bank of Madison County	21,577,000	23,514,000
Firststar Bank (Branch)	11,519,238,000	14,561,855,000
Madison Bank	35,049,000	40,788,000
National City Bank of Kentucky (Branch)	5,361,245,000	9,698,367,000
Park Federal Credit Union	N/A	180,886,000
Peoples Bank & Trust Company	112,031,000	135,953,000

Source: McFadden American Financial Directory, Spring 1998 Edition.

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EXISTING INDUSTRY

Firm	Product	Total Employed
Berea:		
Alcan Rolled Products - Recycling	Aluminum can stock ingot	110
Berea College Craft Programs	Furniture, wooden games, kitchen items, fireside brooms	200
Booneway Farms, Inc.	Jellies, preserves, sauces, salsa, seasoning, mustards, syrups	19
Churchill Weavers, Inc.	Baby blankets, afghans	98
Dresser Instrument Div.	Industrial pressure gauges, pressure and vacuum gauges	400
Integrity Mold & Die Ltd.	Plastic injection molds, material handling	25
KI (USA) Corporation	Welded component part assemblies, metal stampings, painted auto parts	312
Motor Wheel Corporation	Heavy duty break drums and hubs	160
Nacco Materials Group, Inc.	Industrial lift trucks and uprights	600
PPG Industries	Automotive windshields	200
Parker Seal Company	Rubber O rings	250
Tokico (USA), Inc.	Automotive struts, shock absorbers, caliper breaks	600
Richmond:		
Ajax Magnethermic Corp.	Induction melting and heating equipment, industrial dryer equipment	161
American Tape Co.	Pressure package tape	178
B&H Tool Works, Inc.	Dies, jigs, special machinery, CAD/CAM design and building	160
Blue Grass Plating	Electroplating	70
Concrete Materials Corp.	Septic tanks, wall panels, ready-mixed concrete	40
Continental Metal Specialty, Inc.	Office products, metal stampings, tools and dies	290
Diversified Tool & Development	Screw machine products, secondary machining	20
Electronic Assembly, Inc.	Electro mechanical assemblies, wire harnesses, sub assemblies	350
Kokoku Rubber, Inc.	Electronic, medical and auto-related components	150
Lectrodryer Division	Industrial dryers, dehydration equipment	31
Mikron Industries, Inc.	Vinyl window profiles	92
National Metal Processing, Inc.	Heat treating, welding	30
The Okonite Company	Insulated power cable	310
P-K Tool & Mfg. Co.	Metal stampings	20
Precision Tube, Inc.	Screw machine products, wire forms, tube assemblies	35
Process Manufacturing, Inc.	Roll forming, automotive stampings	110
Rand McNally & Company	Books, maps	106
The Richmond Register	Newspapers, offset printing	50
Sembol Systems	Electro-mech assemblies	35
Sherwin Williams Company	Coatings	242
South Park Tool & Die	Tools, dies, machinery	21
Tebco of Kentucky, Inc.	Truck bodies, parts, towing equipment	27
Uncle Charlies Meats	Ground beef, sausage, meat processing, port tenderloin	75
Yuasa-Exide, Inc.	Storage batteries	332
Waco:		
Bybee Pottery	Dinnerware, mugs, jugs, pitchers, pie plates, souvenirs, miniatures	13

Source: 1998 Kentucky Directory of Manufacturers.

APPENDIX B

SOUTHERN MADISON WATER DISTRICT
WATERWORKS REFUNDING AND IMPROVEMENT
REVENUE BONDS,
SERIES 1999

Minimum Net Annual Income
and Revenue Calculation

SOUTHERN MADISON WATER DISTRICT, BEREAS, KENTUCKY

**PROFORMA MINIMUM NET ANNUAL
INCOME AND REVENUES CALCULATION**

FOR THE TEST PERIOD ENDED DECEMBER 31, 1999

Issuance of \$860,000

Series 1999 Southern Madison Water District, Berea, Kentucky
Waterworks Refunding and Improvement Revenue Bonds

JAYNES, VICE & SMITH

CERTIFIED PUBLIC ACCOUNTANTS
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RICHMOND, KY 40476-0206

DONALD E. JAYNES, CPA
WAYNE D. VICE, CPA
DAVID A. SMITH, CPA

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FAX : 606/623-6031

To the board of Southern Madison Water District
Southern Madison Water District
Berea, Kentucky

We have compiled the accompanying Proforma Minimum Net Annual income and Revenues Calculation of the Southern Madison Water District for the test year ending December 31, 1999, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

The accompanying Proforma Minimum Net Annual Income and Revenues Calculation presents, to the best of management's knowledge and belief, the Districts Projected Debt Service Coverage that would result when the District issued \$860,000 in Revenue Refunding Bonds, Series 1999; dated September 1, 1999. It is not intended to be a projection of expected financial position, results of operations, or cash flows based on this debt financing. The Proforma Minimum Net Annual Income and Revenues Calculation and this report were prepared for the Board of Commissioners of the District and is required by the 1999 General Bond Resolution under Section 313 subsection (iii), prior to issuance of any further series of bonds of the District payable from pledged receipts and should not be used for any other purpose.

A compilation is limited to presenting projects information that is the representation of management and does not include evaluation of the support for the assumption underlying such information. We have not audited or reviewed the projected information and, accordingly, do not express an opinion or any other form of assurance on the accompanying debt service coverage calculation or assumptions. Furthermore, even when the District issued \$860,000 in Refunding and Improvement Revenue Bonds, Series 1999, dated September 1, 1999, there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

DONALD E. JAYNES, CPA
Certified Public Accountants

Richmond, Kentucky
July 26, 1999

SOUTHERN MADISON WATER DISTRICT, BEREA, KENTUCKY
 PROFORMA MINIMUM NET ANNUAL
 INCOME AND REVENUES CALCULATION
 FOR THE TEST YEAR DECEMBER 31, 1998
 WATER REVENUE REFUNDING BONDS, SERIES 1999

	Proforma Year Ended <u>12/31/99</u>	Proforma Year Ended <u>12/31/98</u>
NET ANNUAL INCOME AND REVENUES		
Operating Revenues	\$1,085,000	\$1,051,850
Operating Expenses	<u>923,500</u>	<u>945,970</u>
Net Operating Income	161,500	105,880
Service Applications	80,000	73,968
Interest Income	15,000	12,912
Add Back Depreciation and Amortization Expenses	<u>120,000</u>	<u>115,417</u>
NET ANNUAL INCOME AND REVENUES	<u>\$376,500</u>	<u>\$308,177</u>
ESTIMATED ANNUAL DEBT SERVICE COVERAGE		
Maximum Annual Debt Service Requirement (Est. - Series 1999)	\$65,855	\$65,855
Combined Maximum Annual Debt Service Requirements (Including Subordinate Debt)	116,360	116,360
Debt Service Coverage Factor	<u>1.20</u>	<u>1.20</u>
Minimum Net Annual Income & Revenue	139,632	139,632
EXCESS OF NET ANNUAL INCOME AND REVENUES OVER MAXIMUM ANNUAL DEBT SERVICE COVERAGE	\$236,868	\$168,545
ESTIMATED MAXIMUM ANNUAL DEBT SERVICE COVERAGE	<u>2.70</u>	<u>2.21</u>

See summary of significant assumptions and accountant's report

**SOUTHERN MADISON WATER DISTRICT, BERA, KENTUCKY
NOTES TO THE PROFORMA MINIMUM NET ANNUAL
INCOME AND REVENUES CALCULATION
FOR THE TEST YEAR DECEMBER 31, 1999**

NOTE A - SUMMARY OF SIGNIFICANT ASSUMPTIONS UNDERLYING THE PROFORMA

The Proforma Minimum Net Annual Income and Revenues Calculation is required by the 1999 Bond Resolution authorizing the issuance of and securing Waterworks Refunding and Improvement Revenue Bonds, adopted September 1, 1999, of the Southern Madison Water District, Berea, Kentucky. The District is a body duly organized pursuant to Chapter 74 of the Kentucky Revised Statutes.

The financial proforma is based upon the following assumptions:

The District issued \$860,000 in Revenue Refunding Bonds, Series 1999; dated September 1, 1999.

The December 31, 1999 proforma financial information is based upon audited 1998 financial statements for fiscal year ending December 31, as amended. The December 31, 1998 proforma financial information is based upon audited 1998 financial statements for the year ended December 31, 1998.

NOTE B - 1999 BOND RESOLUTION

The 1999 General Bond Resolution states that the resolution "shall constitute the sole an exclusive method for the issuance of any Bonds by the District, and any further Series of Bonds of the District payable form the pledged receipts shall be authorized and issued solely pursuant to authority of this General Bond Resolution."

The "net annual income and revenues" may be adjusted "to reflect and take into account for the historical period being tested, any revision in the schedule of water rates, rental and charges either (i) being actually imposed and billed by the District at the time of issuance of such additional parity Bonds, or (ii) approved by the Public Service Commission of Kentucky ... and, (iii) where bonds are refunded, the additional available 'net income and revenues' of the District released as a result hereof."

A further adjustment may be made for the increase in operating revenues anticipated to be derived from the additions, extensions, replacements and betterments to be financed by the additional bonds, less the estimate of additional expenses of operation and maintenance during the said twelve months.

APPENDIX C

SOUTHERN MADISON WATER DISTRICT
WATERWORKS REFUNDING AND IMPROVEMENT
REVENUE BONDS,
SERIES 1999

1998 Audited Financial Statements for the
Southern Madison Water District Water District

APPENDIX D

SOUTHERN MADISON WATER DISTRICT
WATERWORKS REFUNDING AND IMPROVEMENT
REVENUE BONDS,
SERIES 1999

Draft of Approving Opinion

SOUTHERN MADISON WATER DISTRICT

BERHA, KENTUCKY

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

JAYNES, VICE & SMITH
CERTIFIED PUBLIC ACCOUNTANTS

SOUTHERN MADISON WATER DISTRICT
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YEARS ENDED DECEMBER 31, 1998 AND 1997

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Comparative Statement of Cash Flows	7
Notes to Financial Statements	8-11

JAYNES, VICE & SMITH

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INDEPENDENT AUDITOR'S REPORT

To The Board of Commissioners of
Southern Madison Water District
Berea, Kentucky

We have audited the accompanying balance sheets of Southern Madison Water District as of December 31, 1998 and 1997, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audits.

We have conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Madison Water District as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.



JAYNES, VICE & SMITH
Certified Public Accountants

February 15, 1999

SOUTHERN MADISON WATER DISTRICT
BALANCE SHEET
AS OF DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<u>ASSETS</u>		
UTILITY PLANT (Note 1C)		
At cost	\$3,806,923	\$3,620,354
Accumulated depreciation	(1,422,333)	(1,307,052)
Net utility plant	<u>2,384,590</u>	<u>2,313,302</u>
SEGREGATED FUNDS (Note 2)		
Bond and interest sinking funds:		
Cash in bank	7,775	4,859
Construction funds:		
Cash in bank	7,105	18,552
Depreciation reserve fund:		
Time deposits	104,000	104,000
Depository account:		
Cash	13,225	4,043
Time deposits	80,340	77,544
Total segregated funds	<u>212,445</u>	<u>208,998</u>
CURRENT ASSETS		
Cash	197,167	157,221
Accounts receivable (Note 1B)	87,352	72,267
Supply inventory (Note 1A)	28,139	24,541
Prepaid insurance	6,597	5,098
Interest receivable	953	2,783
Total current assets	<u>320,208</u>	<u>261,910</u>
OTHER ASSETS		
Unamortized bond issue costs	3,884	4,020
Deposits	200	200
Total other assets	<u>4,084</u>	<u>4,220</u>
TOTAL ASSETS	<u><u>\$2,921,327</u></u>	<u><u>\$2,788,430</u></u>

The accompanying notes are an integral part of the financial statements.

LIABILITIES AND EQUITY

	<u>1998</u>	<u>1997</u>
NONCURRENT LIABILITIES		
Bonds payable (Note 3)	\$1,070,000	\$1,108,000
Note payable (Note 5)	40,035	46,553
Total noncurrent liabilities	<u>1,110,035</u>	<u>1,154,553</u>
CURRENT LIABILITIES		
Accounts payable	58,002	94,920
Payroll and sales tax payable	11,268	7,345
Customer deposits	104,360	93,550
Interest payable	1,624	1,480
Note payable	11,174	11,174
Total	<u>186,428</u>	<u>208,469</u>
Payable from segregated funds:		
Bonds payable (Note 3)	38,000	37,000
Total current liabilities	<u>224,428</u>	<u>245,469</u>
EQUITY		
Contributions in aid of construction	1,084,661	925,566
Retained earnings	502,203	462,842
Total equity	<u>1,586,864</u>	<u>1,388,408</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$2,921,327</u></u>	<u><u>\$2,788,430</u></u>

SOUTHERN MADISON WATER DISTRICT
STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
OPERATING INCOME		
Sale of water	\$1,014,852	\$940,419
Late charges	24,526	21,915
Miscellaneous	12,472	15,781
Total operating income	<u>1,051,850</u>	<u>978,115</u>
COST OF SALES		
Purchased water	<u>492,156</u>	<u>446,678</u>
GROSS PROFIT	559,694	531,437
OPERATING EXPENSES		
Bad debt expense (recoveries)	1,962	8,490
Commissioners' salaries	10,800	10,500
Depreciation and amortization (Note 1C)	115,417	98,296
Dues, taxes, and licenses	4,313	2,403
Employee benefits (Notes 6 and 7)	14,342	10,148
Insurance and bonding	15,220	14,668
Miscellaneous	7,996	4,879
Office expense	14,834	16,972
Payroll taxes	14,442	12,732
Professional services	19,355	15,025
Repairs and maintenance	46,771	29,940
Salaries and wages	157,703	143,773
Truck and equipment expense	12,356	13,789
Utilities and telephone	19,275	20,269
Total operating expenses	<u>454,786</u>	<u>401,884</u>
Operating income	\$104,908	\$129,553

The accompanying notes are an integral part of the financial statements.

SOUTHERN MADISON WATER DISTRICT
STATEMENT OF INCOME (CONTD)
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
OTHER INCOME (EXPENSES)		
Interest income	\$12,912	\$13,476
Interest expense on bonded debt, other debt	(75,087)	(77,523)
Interest expense on customer deposits	(3,372)	(2,729)
Total other income (expenses)	<u>(65,547)</u>	<u>(66,776)</u>
NET INCOME (LOSS)	<u>\$39,361</u>	<u>\$62,777</u>

The accompanying notes are an integral part of the financial statements.

SOUTHERN MADISON WATER DISTRICT
STATEMENT OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
Retained earnings, beginning of year	\$462,842	\$400,065
Net income (loss) for the year	<u>39,361</u>	<u>62,777</u>
Retained earnings, end of year	<u><u>\$502,203</u></u>	<u><u>\$462,842</u></u>

The accompanying notes are an integral part of the financial statements.

SOUTHERN MADISON WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
OPERATING ACTIVITIES		
Net income (loss)	\$39,361	\$62,777
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	115,417	98,296
Changes in operating assets and liabilities:		
(Increase) decrease in net accounts receivable	(13,255)	218
(Increase) decrease in inventories and prepaid expenses	(5,097)	3,801
Increase (decrease) in accounts payable and accrued expenses	<u>(22,041)</u>	<u>57,095</u>
Net cash provided by operating activities	<u>114,385</u>	<u>222,187</u>
INVESTING ACTIVITIES		
Additions to utility plant	(82,469)	(161,683)
Line rebates to customers	<u>(18,973)</u>	<u>(19,317)</u>
Net cash used in investing activities	<u>(101,442)</u>	<u>(181,000)</u>
FINANCING ACTIVITIES		
Principal payments on long-term debt	(43,518)	(42,989)
Contributions in aid of construction	<u>73,968</u>	<u>71,136</u>
Net cash provided (used) in financing activities	<u>30,450</u>	<u>28,147</u>
Increase (decrease) in cash and cash equivalents	43,393	69,334
Cash and cash equivalents at beginning of year	<u>366,219</u>	<u>296,885</u>
Cash and cash equivalents at end of year	<u><u>\$409,612</u></u>	<u><u>\$366,219</u></u>

The accompanying notes are an integral part of the financial statements.

SOUTHERN MADISON WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998 AND 1997

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

A summary of the District’s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

A. *Inventories*

Inventories are stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method.

B. *Accounts Receivable*

The District uses the allowance method to account for uncollectible accounts receivable.

	<u>1998</u>	<u>1997</u>
Trade accounts receivable	\$105,219	\$88,172
Less: Allowance for doubtful accounts	<u>17,867</u>	<u>15,905</u>
Net accounts receivable	<u>\$ 87,352</u>	<u>\$72,267</u>

C. *Utility Plant*

The utility plant is stated at cost and depreciation is provided for in amounts sufficient to relate the cost to operations over the estimated service lives on a straight-line basis.

D. *Bond Issue Costs*

The legal costs incurred in issuing the 1987 bond are being amortized over the life of the bond on a straight-line basis.

E. *Accounting Standards*

The District follows all pronouncements of the *Governmental Accounting Standards Board* (GASB), and also *Financial Accounting Standards Board* statements and interpretations, *Accounting Principles Board* opinions, and *Accounting Research Bulletins*, issued on or before November 30, 1989, unless they conflict with a GASB pronouncement.

SOUTHERN MADISON WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998 AND 1997

NOTE 2 – RESTRICTED ASSETS AND BOND REQUIREMENTS

The District is required, under the resolution of the waterworks revenue bond issue, to maintain certain restricted cash accounts. The resolution provides for all revenue received to be deposited on a timely basis, in a water revenue cash account with transfers being made to the following accounts:

Operations and Maintenance Account

Monthly transfers of a sum sufficient to meet the current expenses of operating and maintaining the system. The balance in this fund shall not exceed an amount required to cover anticipated expenditures for a two-month period pursuant to the annual budget.

Bond and Interest Sinking Account

Monthly transfers of a sum equal to one-sixth (or larger as necessary) of the next succeeding interest installment and one-twelfth (or larger as necessary) of the next principal installment.

Depreciation Reserve Account

The depreciation reserve account currently is funded in the amount of \$104,000.

Excess Funds

There shall be transferred within sixty days after the end of each calendar year, the balance of excess funds in the Revenue Account to the Depreciation Reserve Account for the purpose of paying the cost of extensions, additions and/or improvements to the project.

NOTE 3 – BONDS PAYABLE

Bonds payable at December 31, 1998 represent the following:

- A. 4 ¾% Waterworks Revenue Bonds of 1969, due as follows:

<u>Serial Number</u>	<u>Date Due Jan. 1</u>	<u>Amount</u>
56-58	2000	\$30,000
59-61	2001	30,000
62-64	2002	30,000
65-67	2003	30,000

SOUTHERN MADISON WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998 AND 1997

NOTE 3 – BONDS PAYABLE (CONT'D)

<u>Serial Number</u>	<u>Date Due Jan. 1</u>	<u>Amount</u>
68-71	2004	\$40,000
72-75	2005	40,000
76-79	2006	40,000
80-83	2007	40,000
84-87	2008	40,000
88-91	2009	<u>40,000</u>
		<u>\$360,000</u>

Bonds maturing prior to January 1, 1981, are noncallable. Bonds maturing on and after January 1, 1981, shall be subject to redemption or prepayment on any interest payment date on and after January 1, 1980, at par plus interest without any redemption premium.

A statutory mortgage lien upon the waterworks system is created by Section 106.080 of the Kentucky Revised Statutes in favor of the registered owner of the bonds.

B. 6 7/8% Waterworks Revenue Bond of 1987, due as follows:

<u>Date Due Jan. 1</u>	<u>Amount</u>	<u>Date Due Jan. 1</u>	<u>Amount</u>
2000	\$8,000	2013	\$25,000
2001	9,000	2014	27,000
2002	10,000	2015	29,000
2003	10,000	2016	32,000
2004	11,000	2017	35,000
2005	12,000	2018	38,000
2006	13,000	2019	42,000
2007	15,000	2020	46,000
2008	16,000	2021	50,000
2009	17,000	2022	54,000
2010	19,000	2023	59,000
2011	21,000	2024	62,000
2012	23,000	2025	<u>65,000</u>
			<u>\$748,000</u>

SOUTHERN MADISON WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998 AND 1997

NOTE 4 – RELATED PARTY DISCLOSURES

The District engaged in financial transactions with the Chairman of the Board of Commissioners and the Secretary of the Board of Commissioners. The District purchases its insurance coverage through the Chairman's insurance agency. Total premiums for 1998 and 1997 were \$12,868 and \$14,667 respectively. The District purchased two trucks from the Secretary's used car business in 1997 for a total cost of \$15,800.

NOTE 5 – NOTE PAYABLE

The note payable consists of the following at Berea National Bank:

<u>Date of Note</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>Collateral</u>
10/27/94	\$54,555	8.5% var.	\$931.13	11/1/2004	Office Bldg.

NOTE 6 – CAFETERIA PLAN

Effective October 1, 1995, the District adopted a cafeteria plan in accordance with Section 125 of the U.S. Internal Revenue Code. The plan allows eligible employees to reduce their taxable compensation by allocating an amount from each pay period to pay health insurance premiums. Total contributions to the plan in 1998 and 1997 were \$7,625 and \$8,317 respectively. The District pays for the cost of a single person plan. Any additional coverage is paid by the employee.

NOTE 7 – RETIREMENT PLAN

Effective October 1, 1998, the District became a participating member of the Kentucky County Employees Retirement System (CERS). Under the terms of the plan each eligible employee contributes five percent of his or her gross wages to the plan while the District contributes 8.22 percent to the plan. The plan is a qualified plan under IRC Section 401. Total employee contributions in 1998 were \$1,300. Total employer contributions in 1998 were \$2,137.

NOTE 8 – YEAR 2000 ISSUE

The District has identified the areas of its operations that it believes may be affected by what is commonly referred to as the "Y2K" problem. Management believes the most material area is customer billing. The District uses computers for its billing and has received a letter from their software vendor stating that their hardware and software systems are Year 2000 compliant. However, because of the unprecedented nature of the Y2K problem, its effects and the success of related remediation efforts cannot be fully determined until after December 31, 1999.

WYATT, TARRANT & COMBS

Citizens Plaza
Louisville, Kentucky 40202-2898

502 589-5235
Fax: 502 589-0309

August 3, 1999

Southern Madison Water District
207 N. Dogwood Drive
Berea, Kentucky 40403

Peoples Bank of Madison County
Berea, Kentucky

Re: \$____,000 Southern Madison Water District Waterworks Refunding
and Improvement Revenue Bonds, Series 1999

Ladies and Gentlemen:

We have served as Bond Counsel in connection with the original issuance by the Southern Madison Water District (the "District"), a public body corporate and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"), of the District's above-referenced Series 1999 Bonds in the aggregate principal amount of \$____,000 (the "Bonds").

The Bonds are being issued pursuant to the provisions of Chapters 74 and 106 of the Kentucky Revised Statutes (the "Act") and a Bond Resolution of the Issuer adopted on August 2, 1999 (the "Bond Resolution") in order to, together with other funds, if any, available to the District, [i] discharge and defease the District's outstanding Waterworks Revenue Bonds, Series 1987, [ii] pay for a portion of the costs of constructing water line extensions and [iii] pay the costs of issuance of the Bonds.

The Bonds are dated on their original issuance as of September 1, 1999, mature or are subject to redemption through sinking fund installments on January 1 in each of the years and in the amounts, are subject on certain dates to redemption at the option of the District prior to maturity, and bear interest payable on January 1 and July 1 of each year commencing January 1, 2000, at the respective rates per annum, as set forth in the final Official Statement dated as of _____, 1999 related to the Bonds (the "Official Statement").

The Bonds and the interest thereon do not constitute a general obligation or

indebtedness of the District, the City of Berea, Kentucky (the "City"), the County of Madison, Kentucky (the "County") or the Commonwealth within the meaning of the Constitution and laws of the Commonwealth and are not a charge against the general credit or any taxing power of the District, the City, the County, the Commonwealth or any other political subdivision of the Commonwealth but are a limited obligation of the District secured solely by and payable solely from the gross revenues derived from the collection of rates, rentals and charges for the services rendered by the District's waterworks system (the "System"). The Bonds rank on the basis of parity as to security and source of payment with the District's outstanding Waterworks Revenue Bonds, Series of 1969.

In our capacity as Bond Counsel we have examined such documents and matters and conducted such research as we have deemed necessary to enable us to express the opinions set forth below. We have also relied on an opinion dated as of even date herewith of Burnam, Thompson, Weldon & Simons, Richmond, Kentucky, as counsel to the District, with respect to the valid creation, organization and existence of the District and the due adoption of the Bond Resolution by the Board of Commissioners of the District. As to certain questions of fact, we have relied on statements and certifications of certain of the officers, officials, directors, employees and agents of the District and other public officials. Terms which are capitalized and not defined herein are defined in the Bond Resolution.

In rendering our opinions set forth below, we have assumed the authenticity of all documents submitted to us as originals, the legal capacity of natural persons and the conformity to the originals of all documents submitted to us as copies. We have assumed that parties other than the District had the requisite power and authority to enter into and perform all obligations of all documents to which they are parties. We have assumed the due authorization by all requisite action, and the execution and delivery by such other parties of such documents, and the validity and binding effect thereof on such other parties. We have relied for purposes of the opinions set forth below on the representations and warranties made in such documents by all parties thereto.

Based on the foregoing, and in reliance thereon, and on the basis of our examination of such other matters of fact and questions of law as we have deemed relevant in the circumstances, it is our opinion that:

1. The District is a public body corporate and political subdivision of the Commonwealth, validly existing under the provisions of the Constitution and laws of the Commonwealth, including the Act, with the right and power under the Act to adopt the Bond Resolution.

2. The Bond Resolution has been duly and lawfully adopted by the Board of Commissioners of the District.

3. The Bond Resolution is a valid and binding limited obligation of the District enforceable in accordance with its terms.

4. The Bonds have been duly and validly authorized, executed and delivered by the

District in accordance with law and the Bond Resolution and are the valid and binding limited obligations of the District as provided in the Bond Resolution, enforceable in accordance with their terms and entitled to the benefit and security of the Bond Resolution and the Act as amended to the date hereof.

5. Under the laws of the Commonwealth as presently enacted and construed, the Bonds are exempt from ad valorem taxation, and the interest thereon is exempt from income taxation, by the Commonwealth and all of its political subdivisions and taxing authorities.

6. Based on existing laws, regulations and judicial decisions, and assuming the correctness and accuracy of certain representations and warranties of the District made in connection with the original issuance of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes.

7. The Bond Resolution creates the valid pledge which it purports to create of the revenues and income of the System, subject to the provisions of the Bond Resolution permitting the application thereof for the purposes and on the conditions set forth in the Bond Resolution.

The opinion set forth in Paragraph 6 above is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, that must be satisfied subsequent to the original issuance of the Bonds in order that interest thereon be and remain excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of original issuance of the Bonds. The District has covenanted in the Bond Resolution to comply with such requirements.

The foregoing opinions are qualified to the extent that the enforceability of the Bonds and the Bond Resolution, including the rights and remedies thereunder, may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies. We also express no opinion as to the availability of equitable rights or remedies.

We are not expressing an opinion on the investment quality of the Bonds. We are members of the Bar of the Commonwealth and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified. Our opinion relates solely to the questions set out herein and does not consider other questions of law.

Very truly yours,

WYATT, TARRANT & COMBS

IN THE MATTER OF THE APPLICATION OF THE SOUTHERN MADISON
WATER DISTRICT TO ISSUE SECURITIES IN THE APPROXIMATE
PRINCIPAL AMOUNT OF EIGHT HUNDRED SIXTY THOUSAND DOLLARS
(\$860,000) FOR THE PURPOSE OF REFUNDING CERTAIN OUTSTANDING
REVENUE BONDS OF THE DISTRICT AND TO PROVIDE FUNDS PURSUANT
TO THE PROVISIONS OF KRS 278.300 AND 807 KAR 5:001

SEQ NBR	ENTRY DATE	REMARKS
0001	07/22/1999	Application.
0002	07/28/1999	Acknowledgement letter
0003	08/13/1999	Order granting deviation from the requirements of 807 KAR 5:001, Section 6
0004	08/13/1999	Def. letter, info due 8/28
M0001	08/20/1999	SOUTHERN MADISON WD LAURA THEILMANN-AMENDED APPLICATION
0005	08/25/1999	Def. cured letter
0006	09/01/1999	FINAL ORDER; AUTHORIZED TO ISSUE BONDS FOR AN AMOUNT NOT TO EXCEED \$860,000
0007	10/04/2000	First Reminder Letter to file Info. re: Issuance of Securities.



Paul E. Patton, Governor
Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Thomas M. Dorman
Executive Director
Public Service Commission

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602-0615
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-3460

Martin J. Huelsmann
Chairman

Edward J. Holmes
Vice Chairman

Gary W. Gillis
Commissioner

October 4, 2000

Mr. Ray Curry
Superintendent
Southern Madison Water District
207 North Dogwood Drive
P.O. Box 168
Berea, Kentucky 40403

Re: Case No. 1999-310, First Reminder Letter

Dear Mr. Curry:

The Commission entered the enclosed Final Order in this case on September 1, 1999. The Commission ordered that Southern Madison shall, within 30 days of issuance of the securities, advise the Commission in writing of the date or dates of issuance of the securities, the price paid, the interest rate, the purchasers, and all fees and expenses, including underwriting discounts or commissions, or other compensation involved in the issuance and distribution. To date the Commission has not received these filings. Please make the filings referencing the case number 1999-310, not later than 15 days from the date of this letter.

If you have questions concerning this letter, please contact Jess Helton, of the Filings Division, at 502-564-3940, extension 278. Otherwise, please mail the required filing to Thomas M. Dorman, Executive Director, Public Service Commission, 211 Sower Blvd., Post Office Box 615, Frankfort, Kentucky 40602.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

Enclosures
CC: Parties of Record





COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 99-310
SOUTHERN MADISON WATER DISTRICT

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on September 1, 1999.

Parties of Record:

Ray Curry
Superintendent
Southern Madison Water District
207 North Dogwood Drive
P. O. Box 168
Berea, KY. 40403

Honorable Laura H. Theilmann
Bond Counsel
Wyatt, Tarrant & Combs
Citizens Plaza
Louisville, KY. 40202

Honorable C. Michael Weldon
Attorney at Law
Burnam, Thompson, Weldon & Simons
116 W. Main Street, Suite 2A
P. O. Box 726
Richmond, KY. 40475

Stephanie J. Bell

Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE SOUTHERN MADISON)
WATER DISTRICT TO ISSUE SECURITIES IN)
THE APPROXIMATE PRINCIPAL AMOUNT OF)
\$860,000 FOR THE PURPOSE OF REFUNDING) CASE NO.
AN OUTSTANDING REVENUE BOND OF THE) 99-310
DISTRICT AND FINANCE CERTAIN SYSTEM)
IMPROVEMENTS PURSUANT TO THE)
PROVISIONS OF KRS 278.300 AND 807 KAR 5:001)

ORDER

On August 20, 1999, Southern Madison Water District ("Southern Madison") filed an application for authority to issue Southern Madison Water District Waterworks Refunding and Improvement Revenue Bonds, Series 1999 ("1999 Bonds"), as required by KRS 278.300, in the principal sum not to exceed \$860,000. Bond proceeds in the amount of \$756,300 will be used to refund outstanding revenue bonds designated as Southern Madison Water District Waterworks Revenue Bonds, Series 1987 ("1987 Bonds"). The remaining bond proceeds will be used to fund \$53,700 in bond issuance costs and \$50,000 in system improvements. The 1987 Bonds carry an annual interest rate of 6.875 percent. The 1999 Bonds mature in various annual amounts from 2000 through 2025 and will bear coupon rates ranging from 4.7 to 5.75 percent. The proposed improvements consist of a Highway 21 water main extension at a total cost of \$127,000. Southern Madison stated that the refunding of the 1987 Bonds is in the public interest and is intended to strengthen the financial condition of the District by producing substantial debt service savings. It further stated that the proposed improvements do

not require a Certificate of Public Convenience and Necessity as it is within the ordinary course of business as defined by 807 KAR 5:001, Section 9(3).

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. The primary purpose of the 1999 Bonds is to refund the 1987 Bonds.
2. Issuing the 1999 Bonds in an amount sufficient to refund the 1987 Bonds and pay the bond issuance costs will result in a present value savings of approximately \$43,000.
3. Subsequent to the issuance of the 1999 Bonds, Southern Madison's total long-term debt will total approximately \$1,220,000. The proposed financing related to the system improvements will then represent 4 percent of Southern Madison's total long-term debt.
4. In its 1998 annual report filed with the Commission Southern Madison reported \$1,051,850 and \$409,812 in annual operating revenues and cash, respectively.
5. After the addition of the proposed improvements gross plant in service will total \$3,933,923. The cost of the improvements is estimated to be \$127,000 or 3.2 percent of the gross plant in service.
6. Pursuant to 807 KAR 5:001, Section 9(3), an extension is within the ordinary course of business if it does not involve sufficient capital outlay to materially affect the existing financial condition of the utility involved or result in increased charges to its customers.
7. Southern Madison's proposed improvements do not involve sufficient capital outlay to materially affect its existing financial condition and will not result in

increased charges to its customers. Therefore, the proposed improvements are considered to be within the ordinary course of business and do not require a Certificate of Public Convenience and Necessity.

8. Southern Madison's proposal to issue the 1999 Bonds is for a lawful object within Southern Madison's corporate purpose, is reasonably necessary, appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. Southern Madison is authorized to issue bonds for an amount not to exceed \$860,000, with coupon rates ranging from 4.7 to 5.75 percent.

2. Southern Madison shall issue its proposed 1999 Bonds only on such terms that will result in a positive net present value savings and which are consistent with its application.

3. Southern Madison shall, within 30 days after issuance of the securities, advise the Commission in writing of the date or dates of issuance of the securities, the price paid, the interest rate, the purchasers, and all fees and expenses, including underwriting discounts or commissions, or other compensation involved in the issuance and distribution.

4. The proceeds from the transactions authorized herein shall be used only for the lawful purposes specified in Southern Madison's application.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 1st day of September, 1999.

By the Commission

ATTEST:


Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

August 25, 1999

Ray Curry
Superintendent
Southern Madison Water District
207 North Dogwood Drive
P. O. Box 168
Berea, KY. 40403

Honorable Laura H. Theilmann
Bond Counsel
Wyatt, Tarrant & Combs
Citizens Plaza
Louisville, KY. 40202

Honorable C. Michael Weldon
Attorney at Law
Burnam, Thompson, Weldon & Simons
116 W. Main Street, Suite 2A
P. O. Box 726
Richmond, KY. 40475

RE: Case No. 99-310
SOUTHERN MADISON WATER DISTRICT

The Commission staff has reviewed your response of August 20, 1999 and has determined that your application in the above case now meets the minimum filing requirements set by our regulations. Enclosed please find a stamped filed copy of the first page of your filing. This case has been docketed and will be processed as expeditiously as possible.

If you need further information, please contact my staff at 502/564-3940.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

WYATT, TARRANT & COMBS

CITIZENS PLAZA

LOUISVILLE, KENTUCKY 40202-2898

502 589-5235

FAX: 502 589-0309

1700 LEXINGTON FINANCIAL CENTER
LEXINGTON, KY 40507-1746
606 233-2012

TAYLOR-SCOTT BUILDING
FRANKFORT, KY 40601-1807
502 223-2104

ELSBY BUILDING
NEW ALBANY, IN 47150-3440
812 945-3561

1500 NASHVILLE CITY CENTER
NASHVILLE, TN 37219-1750
615 244-0020

29 MUSIC SQUARE EAST
NASHVILLE, TN 37203-4322
615 255-6161

FILED

AUG 20 1999

PUBLIC SERVICE
COMMISSION

313 E. MAIN STREET, SUITE 1
HENDERSONVILLE, TN 37075-2546
615 822-8822

6075 POPLAR AVENUE, SUITE 650
MEMPHIS, TN 38119-4721
901 537-1000

10368 WALLACE ALLEY STREET, SUITE 8
KINGSPORT, TN 37663-3977
423 279-1825

WRITER'S DIRECT DIAL NUMBER

502 562-7236

July 21, 1999

RECEIVED
JUL 22 1999
PUBLIC SERVICE
COMMISSION

Via Federal Express

Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane, P.O. Box 615
Frankfort, Kentucky 40602

CASE 99-310

Re: Southern Madison Water District - Application for Authority to Issue Securities

Ms. Helton:

Pursuant to Section 278.300 of the Kentucky Revised Statutes, please find enclosed the original and ten (10) copies of an application of the Southern Madison Water District to issue approximately \$860,000 of its Waterworks Refunding and Improvement Revenue Bonds for the purpose of refunding its outstanding Waterworks Revenue Bonds, Series of 1987, dated January 1, 1987 and for the construction of a small line extension.

The District respectfully requests an Order authorizing the issuance of the above described bonds without a formal hearing and that this matter be placed at the head of the docket.

Please call if you have any questions or need any additional information. Thank you for your assistance.

Sincerely,

WYATT, TARRANT & COMBS

Laura Theilmann

Laura H. Theilmann

WYATT, TARRANT & COMBS

CITIZENS PLAZA

LOUISVILLE, KENTUCKY 40202-2898

502 589-5235

FAX: 502 589-0309

1700 LEXINGTON FINANCIAL CENTER
LEXINGTON, KY 40507-1746
606 233-2012

TAYLOR-SCOTT BUILDING
FRANKFORT, KY 40601-1807
502 223-2104

ELSBY BUILDING
NEW ALBANY, IN 47150-3440
812 946-3561

1500 NASHVILLE CITY CENTER
NASHVILLE, TN 37219-1750
615 244-0020

29 MUSIC SQUARE EAST
NASHVILLE, TN 37203-4322
615 255-6161

313 E. MAIN STREET, SUITE 1
HENDERSONVILLE, TN 37075-2546
615 822-8822

6075 POPLAR AVENUE, SUITE 650
MEMPHIS, TN 38119-4721
901 537-1000

10368 WALLACE ALLEY STREET, SUITE 6
KINGSPORT, TN 37663-3977
423 279-1825

WRITER'S DIRECT DIAL NUMBER

502 562-7236

August 19, 1999

Via Federal Express

Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane, P.O. Box 615
Frankfort, Kentucky 40602

Re: Southern Madison Water District - PSC Case No. 99-310

Ms. Helton:

Please find enclosed the original and ten (10) copies of the amended application of the Southern Madison Water District to issue its Waterworks Refunding and Improvement Revenue Bonds for the purpose of refunding its outstanding Waterworks Revenue Bonds, Series of 1987 and for the construction of a small line extension along Kentucky Highway 21.

The amended application should alleviate the filing deficiencies noted in the Commission's correspondence of August 13, 1999.

The District respectfully requests an Order authorizing the issuance of the above described bonds as described in the application, as amended, without a formal hearing and that this matter be placed at the head of the docket.

Ms. Helen C. Helton
July 21, 1999
Page 2

Please call if you have any questions or need any additional information. Thank you for your assistance.

Sincerely,

WYATT, TARRANT & COMBS



Laura H. Theilmann

Enclosures

cc: Mr. Scott Lawless
Public Service Commission
730 Schenkel Lane, P.O. Box 615
Frankfort, Kentucky 40602

William Willis, Esquire
Director, Office of the General Counsel
Public Service Commission
730 Schenkel Lane, P.O. Box 615
Frankfort, Kentucky 40602

Ms. Julie A. Petersen
Ross, Sinclair & Associates, Inc.
315 N. Broadway
Lexington, Kentucky 40508

Mr. Dallas Cox, General Manager
Southern Madison Water District
207 N. Dogwood Drive
P.O. Box 168
Berea, Kentucky 40403

C. Michael Weldon, Esquire
Burnam, Thompson, Weldon & Simons
116 W. Main Street, Suite 2A
P.O. Box 726
Richmond, Kentucky 40475

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED
AUG 24 1999
PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

THE AMENDED APPLICATION OF THE SOUTHERN MADISON WATER DISTRICT (THE "DISTRICT") TO ISSUE SECURITIES IN THE APPROXIMATE PRINCIPAL AMOUNT OF EIGHT HUNDRED SIXTY THOUSAND DOLLARS (\$860,000) FOR THE PURPOSE OF REFUNDING CERTAIN OUTSTANDING REVENUE BONDS OF THE DISTRICT AND TO PROVIDE FUNDS PURSUANT TO THE PROVISIONS OF KRS 278.300 AND 807 KAR 5:001

CASE NO. 99-310

AMENDED APPLICATION

The Applicant, Southern Madison Water District (the "District") of Madison County, Kentucky, filed its original Application pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and requested that the Public Service Commission of Kentucky (the "Commission") enter an Order authorizing the District to issue certain securities in the approximate principal sum Eight Hundred Sixty Thousand Dollars (\$860,000.00) (the "1999 Bonds"), for the purpose of refunding certain outstanding waterworks revenue bonds of the District and funding a construction fund for small line extensions along Kentucky Highway 21.

The original application is being amended hereby to correct the filing deficiencies noted in the Commission's correspondence of August 13, 1999, and to request that the Commission issue an Order that the proposed construction of small line extensions for the Kentucky Highway 21 Project fall within 807 KAR 5:001, Section 9(3) as extensions within the ordinary course of business for which no Certificate of Public Convenience and Necessity is required. In the event that the

Commission should determine that the proposed extensions are not made in the ordinary course of business, and therefore are extensions for which a Certificate of Public Convenience and Necessity is required, that the Commission enter an interim order approving the Application, as amended, with instructions that the District not spend the proceeds of the 1999 Bonds allocated to the Kentucky Highway 21 extension or begin construction until the District has applied for and received a Certificate of Public Convenience and Necessity from the Commission. The original Application and all exhibits are incorporated by reference herein in their entirety. In support of this Amended Application, and in compliance with the rules and regulations of the Commission, the District states as follows:

1. The original application was date stamped received July 22, 1999 and assigned Case No. 99-310 by the Commission.
2. Pursuant to an Order dated August 13, 1999, the Commission granted the District's request for a deviation, to the extent necessary, from 807 KAR 5:001, Section 6, to allow the submission of the District's 1998 Annual Report in lieu of more recent financial data.
3. By correspondence dated August 13, 1999, the Commission found that the original application was deficient in certain filing requirements, specifically 807 KAR 5:001, Section 11(2)(b).
4. In order to correct the deficiencies of the original application and pursuant to 807 KAR 5:001, Section 11(2)(b), the District attaches as Exhibit A the mortgage on the District's office building. There are no other trust deeds or mortgages outstanding as to any other property of the District.

5. It is the opinion of the District that the Kentucky Highway 21 small line extensions fall within 807 KAR 5:001, Section 9(3) as extensions within the ordinary course of business which do not require a Certificate of Public Convenience and Necessity from the Commission. The proposed Kentucky Highway 21 line extension is contiguous to the general area in which the District currently renders service. The proposed extensions will not create wasteful duplication of plant, equipment, property or facilities, or conflict with the existing certificates or service of other utilities. There are no other likely suppliers to the proposed new customers along the Kentucky Highway 21 extension.

No rate increase will be required and the proposed extension does not involve sufficient capital outlay to materially affect the existing financial condition of the District. Please find attached as Exhibit B the Proforma Minimum Net Annual Income and Revenue Calculation for the test period ending December 31, 1999 prepared by Jaynes, Vice & Smith. The proforma estimates the maximum annual debt service coverage ratio of the District to be 2.70 after delivery of the 1999 Bonds. This estimate significantly exceeds the 1.20 debt service coverage factor required by the District's outstanding bond resolutions.

No greater financial burden is assumed by the District by funding a small construction account with the proceeds of the 1999 Bonds. The final debt service schedule for the 1999 Bonds, the sources and uses of funds schedule, and the savings report are attached hereto as Exhibits C, D and E. The debt service schedule for the District's 1987 Bonds which are to be retired with the proceeds of the 1999 Bonds is attached hereto as Exhibit F. Although a nominal portion of the proceeds of the 1999 Bonds is to be set aside for the construction of small line extensions along Kentucky Highway 21, the District will still experience cumulative savings of \$22,453.51 over the

debt service requirements of the 1987 Bonds. The issuance of the 1999 Bonds will result in a savings to the District without extending the maturity schedule of the 1987 Bonds or increasing the overall debt service requirements of the District.

According to the 1998 Annual Report, a copy of which is on file with the Commission and incorporated by reference herein, the District has approximately 130 total miles of water line. The proposed extensions to the Highway 21 area will total around 13,500 feet, or 2.55 miles and approximately 1.9% of the total length of water lines currently serving the District's waterworks distribution system.

Similarly, according to the 1998 Annual Report, the District serves 3335 customers. The proposed Highway 21 line extension would add twenty (20) additional customers, or .6% of the total customers served by the District.

Based upon the foregoing and pursuant to 807 KAR 5:001, Section 9(3), the District respectfully requests that the Commission order that the proposed Kentucky Highway 21 small line are extensions in the ordinary course of business and that no Certificate of Public Convenience and Necessity is required.

6. In the event that the Commission determines that the Kentucky Highway 21 extensions are not extensions in the ordinary course of business, the District alternatively requests the Commission enter an Interim Order approving the Application, as amended hereby, with directions to the District that construction proceeds are not to be spent and construction on the Kentucky Highway 21 line extension is not to begin until such time as the District has accumulated the necessary documentation, applied for and obtained the required Certificate of Public Convenience and Necessity.

WHEREFORE, the District respectfully requests that the Commission take the following actions,

1. Place the original Application, as amended hereby, to issue securities at the head of the docket as provided by KRS 278.300(2);
2. Authorize the issuance of the securities requested in the Application, as amended, and grant an Order determining that the proposed small line extensions along Kentucky Highway 21 are extensions in the ordinary course for which no Certificate of Public Convenience and Necessity is required prior to the proposed delivery date of the Bonds of September 14, 1999;
3. Alternatively, issue an Interim Order prior to the proposed delivery date of the Bonds of September 14, 1999, approving said Application, as amended, and authorizing the issuance of said securities with instructions to the District that no construction proceeds be spent and that construction not begin until the District has accumulated the required documentation, applied for and received from the Commission a Certificate of Public Convenience and Necessity;
4. Waive or grant a deviation from any formal or informal requirements or filings that may be necessary prior to the approval of this Application, as amended, and the entrance of an Order to the same effect; and
5. Process this Amended Application without a formal hearing in order to save time and expense. The District will promptly respond to any Inquiries or informal requests by the Commission's staff.

11-1-94
mailed to
Bank
By: SWA

MORTGAGE

THIS MORTGAGE is made this 27th day of OCTOBER, 19 94, between the Mortgagor, (herein "Borrower") SOUTHERN MADISON WATER DISTRICT and the mortgagee, BEREA NATIONAL BANK, a corporation organized and existing under the laws of KENTUCKY, whose address is 424 CHESTNUT STREET, BEREA, KENTUCKY 40403 (herein "Lender").

Whereas, Borrower is indebted to Lender in the principal sum of Seventy Five Thousand dollars and 00/100 \$75,000.00 Dollars, which indebtedness is evidenced by Borrower's note dated October 27, 1994 (herein "Note"), providing for monthly installments of principal and interest, with the balance of the indebtedness, if not sooner paid, due and payable on November 1, 2004.

To Secure to Lender (a) the repayment of the indebtedness evidenced by the Note, with interest thereon and all renewals and extensions thereof, the payment of all other sums, with interest thereon, advanced in accordance herewith to protect the security of this Mortgage, and the performance of the covenants and agreements of Borrower herein contained, and (b) the repayment of any future advances, with interest thereon, made to Borrower by Lender pursuant to paragraph 21 hereof (herein "Future Advances"), Borrower does hereby mortgage, grant and convey to Lender the following described property located in the County of Madison, State of Kentucky:

A certain tract or parcel of land located in Berea, Madison County, Kentucky, and further described as follows:

Being all of Tract 5 of Berea Plaza as shown on a plat recorded in Plat Book 8 at page 315 in the Madison County Clerk's office, reference to which is hereby made for a more particular description.

And being the same property conveyed to the mortgagor by deed dated October, 1994, and recorded in Deed Book 449 at page 463 in the Madison County Clerk's office, Richmond, KY.

mort-78/94506

Commonwealth of Kentucky
Public Service Commission
Case No. 94-351
Order dated: October 18, 1994

In Re: Application of Southern Madison Water District for Authority to Issue a Note and Mortgage for the purchase of Real Estate, pursuant to KRS 278.300.

Pursuant to order of the Public Service Commission the application for authority to issue a promissory note and mortgage for the sum of \$75,000.00 was approved.

RECEIVED
MADISON CO. CLERK
KENTUCKY
OCT 31 4 28 PM '94
MAY I HAVE CENTER

which has the address of _____ (herein "Property Address");

BOOK 437 PAGE 782

Together with all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, rents, royalties, mineral, oil and gas rights and profits, water, water rights, and water stock, and all fixtures now or hereafter attached to the property, all of which, including replacements and additions thereto, shall be deemed to be and remain a part of the property covered by this Mortgage; and all of the foregoing, together with said property (or the leasehold estate if this Mortgage is on a leasehold) are herein referred to as the "Property".

Borrower covenants that Borrower is lawfully seized of the estate hereby conveyed and has the right to mortgage, grant and convey the Property, that the Property is unencumbered, and that Borrower will warrant and defend generally the title to the Property against all claims and demands, subject to any declarations, easements or restrictions listed in a schedule of exceptions to coverage in any title insurance policy insuring Lender's interest in the Property.

UNIFORM COVENANTS Borrower and Lender covenant and agree as follows:

1. Payment of Principal and Interest. Borrower shall promptly pay when due the principal of and interest on the indebtedness evidenced by the Note, prepayment and late charges as provided in the Note, and the principal of and interest on any Future Advances secured by this Mortgage.

2. Application of Payments. Unless applicable law provides otherwise, all payments received by Lender under the Note and paragraphs 1 and 2 hereof shall be applied by Lender first in payment of amounts payable to Lender by Borrower under paragraph 2 hereof, then to interest payable on the Note, then to the principal of the Note, and then to interest and principal on any Future Advances.

3. Charges; Liens. Borrower shall pay all taxes, assessments and other charges, fines and impositions attributable to the Property which may attain a priority over this Mortgage, and leasehold payments or ground rents, if any, in the manner provided under paragraph 2 hereof or, if not paid in such manner, by Borrower making payment, when due, directly to the payee thereof. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph, and in the event Borrower shall make payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Borrower shall promptly discharge any lien which has priority over this Mortgage; provide, that Borrower shall not be required to discharge any such lien so long as Borrower shall agree in writing to the payment of the obligation secured by such lien in a manner acceptable to Lender, or shall in good faith contest such lien by, or defend enforcement of such lien in, legal proceedings which operate to prevent the enforcement of the lien or forfeiture of the Property or any part thereof.

4. Hazard Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage", and such other hazards as Lender may require and in such amounts and for such periods as Lender may require; provided, that Lender shall not require that the amount of such coverage exceed that amount of coverage required to pay the sums secured by this Mortgage.

The insurance carrier providing the insurance shall be chosen by Borrower subject to approval, by Lender; provided, that such approval shall not be unreasonably withheld. All premiums on insurance policies shall be paid in the manner, provided under paragraph 2 hereof or, if not paid in such manner, by Borrower making payment, when due, directly to the insurance carrier.

All insurance policies and renewals thereof shall be in form acceptable to Lender and shall include a standard mortgage clause in favor of and in form acceptable to Lender. Lender shall have the right to hold the policies and renewals thereof, and Borrower shall promptly furnish to Lender all renewal notices and all receipts of paid premiums. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, provided such restoration or repair is economically feasible and the security of this Mortgage is not thereby impaired. If such restoration or repair is not economically feasible or if the security of this Mortgage would be impaired, the insurance proceeds shall be applied to the sums secured by these Mortgage, with the excess, if any, paid to Borrower. If the Property is abandoned by Borrower, or if Borrower fails to respond to Lender within 30 days from the date notice is mailed by Lender to Borrower that the insurance carrier offers to settle a claim for insurance benefits, Lender is authorized to collect and apply the insurance proceeds at Lender's option either to restoration or repair of the Property or to the sums secured by this Mortgage.

Unless Lender and Borrower otherwise agree in writing, any such application of proceeds to principal shall not extend or postpone the due date of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amount of such installments. If under paragraph 18 hereof the Property is acquired by Lender, all right, title and interest of Borrower in and to any insurance policies and in and to the proceeds thereof resulting from damage to the Property prior to the sale of acquisition shall pass to Lender to the extent of the sums secured by this Mortgage immediately prior to such sale or acquisition.

5. Preservation and Maintenance of Property; Leaseholds; Condominiums; Planned Unit Developments. Borrower shall keep the Property in good repair and shall not commit waste or permit impairment or deterioration of the Property and shall comply with the provisions of any lease if this Mortgage is on a leasehold. If this Mortgage is on a unit in a condominium or a planned unit development, Borrower shall perform all of Borrower's obligations under the declaration or covenants creating or governing the condominium or planned unit developments, the by-laws and regulations of the condominium or planned unit development, and constituent documents. If a condominium or planned unit development rider is executed by Borrower and recorded together with this Mortgage, the covenants and agreements of such rider shall be incorporated into and shall amend and supplement the covenants and agreements of this Mortgage as if the rider were a part hereof.

6. Protection of Lender's Security. If Borrower fails to perform the covenants and agreements contained in this Mortgage, or if any action or proceeding is commenced which materially affects Lender's interest in the Property, bankrupt or decedent, then Lender at Lender's option; upon notice to Borrower, may make such appearances, disburse such sums and take such action as is necessary to protect Lender's interests, including, but not limited to, disbursement of reasonable attorney's fees and entry upon the Property to make repairs. If Lender required mortgage insurance as a condition of making the loan secured by this Mortgage, Borrower shall pay the premiums required to maintain such insurance in effect until such time as the requirement of such insurance terminates in accordance with Borrower's and Lender's written agreement or applicable law. Borrower shall pay the amount of all mortgage insurance premiums in the manner provided under paragraph 2 hereof.

Any amounts disbursed by Lender pursuant to this paragraph 7, with interest thereon, shall become additional indebtedness of Borrower secured by this Mortgage. Unless Borrower and Lender agree to other terms of payment, such amounts shall be payable upon notice from Lender to Borrower requesting payment thereof, and shall bear interest from the date of disbursement at the rate payable from time to time on outstanding principal under the Note unless payment of interest at the highest rate permissible under applicable law. Nothing contained in this paragraph 7 shall require Lender to incur any expense or take any action hereunder.

7. Inspection. Lender may make or cause to be made reasonable entries upon and inspections of the Property, provided that Lender shall give notice prior to any such inspection specifying reasonable cause therefor related to Lender's interest in the Property.

8. Condemnation. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of the Property, or part thereof, or for conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender.

In the event of a total taking of the Property, the proceeds shall be applied to the sums secured by this Mortgage, with the excess, if any paid to Borrower. In the event of a partial taking of the Property, unless Borrower and Lender otherwise agree in writing, there shall be applied to the sums secured by this Mortgage such proportion of the proceeds as is equal to that proportion which the amount of the sums secured by this Mortgage immediately prior to the date of taking bears to the fair market value of the Property immediately prior to the date of taking, with the balance of the proceeds paid to Borrower.

If the property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemnor offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date such notice is mailed, Lender is authorized to collect and apply the proceeds, at Lender's option, either to restoration or repair of the Property or to the sums secured by this Mortgage.

Unless Lender and Borrower otherwise agree in writing, any such application of proceeds to principal shall not extend or postpone the due date of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amount of such interests.

9. Borrower Not Released. Extension of the time for payment or modification of amortization of the sums secured by this mortgage granted by Lender to any successor in interest of Borrower shall not operate to release, in any manner, the liability of the original Borrower and Borrower's successors in interest. Lender shall not be required to commence proceedings against such successor or refuse to extend time for payment or otherwise modify amortization of the sums secured by this Mortgage by reason of any demand made by the original Borrower and Borrower's successors in interest.

10. Forbearance by Lender Not Waiver. Any forbearance by Lender in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any such right or remedy. The procurement of insurance or the payment of taxes or other liens or charges by Lender shall not be a waiver of Lender's right to accelerate the maturity of the indebtedness secured by this Mortgage.

11. Remedies Cumulative. All remedies provided in this Mortgage are distinct and cumulative to any other right or remedy under this Mortgage or afforded by law or equity, and may be exercised concurrently, independently or successively.

12. Successors and Assigns Bound; Joint and Several Liability; Captions. The covenants and agreements herein contained shall bind, and the rights hereunder shall inure to, the respective successors and assigns of Lender and Borrower, subject to the provisions of paragraph 17 hereof. All covenants and agreements of Borrower shall be joint and several. The captions and headings of the paragraphs of this Mortgage are for convenience only and are not to be used to interpret or define the provisions hereof.

13. Notice. Except for any notice required under applicable law to be given in another manner, (a) any notice to Borrower provided for in this Mortgage shall be given by mailing such notice by certified mail addressed to Borrower at the Property address or at such other address as Borrower may designate by notice to Lender as provided herein, and (b) any notice to Lender shall be given by certified mail, return receipt requested, to Lender's address stated herein or to such other address as Lender may designate by notice to Borrower as provided herein. Any notice provided for in this Mortgage shall be deemed to have been given to Borrower or Lender when given in the manner designated herein.

14. Uniform Mortgage; Governing Law; Severability. This form of mortgage combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property. This Mortgage shall be governed by the law of the jurisdiction in which the property is located. In the event that any provision or clause of this Mortgage or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Mortgage or the Note which can be given effect without the conflicting provision, and to this end the provisions of the Mortgage and the Note are declared to be severable.

15. Borrower's Copy. Borrower shall be furnished a conformed copy of the Note and of this Mortgage at the time of execution or after recordation hereof.

16. Transfer of the Property; Assumption. If all or any part of the Property or an interest therein is sold or transferred by Borrower without Lender's prior written consent, excluding (a) the creation of a lien or encumbrance subordinate to this Mortgage, (b) the creation of a purchase money security interest for household appliances, (c) a transfer by devise, descent or by operation of law upon the death of a joint tenant or (d) the grant of any leasehold interest of three years or less not containing an option to purchase, Lender may, at Lender's option, declare all the sums secured by this Mortgage to be immediately due and payable. Lender shall have waived such option to accelerate if, prior to the sale or transfer, Lender and the person to whom the Property is to be sold or transferred reach agreement in writing that the credit of such person is satisfactory to Lender and that the interest payable on the sums secured by this Mortgage shall be at such rate as Lender shall request. If Lender has waived the option to accelerate provided in this paragraph 17, and if Borrower's successor in interest has executed a written assumption agreement accepted in writing by Lender, Lender shall release Borrower from all obligations under this Mortgage and the Note.

If Lender exercises such option to accelerate, Lender shall mail Borrower notice of acceleration in accordance with paragraph 14 hereof. Such notice shall provide a period of not less than 30 days from the date the notice is mailed within which Borrower may pay the sums declared due. If Borrower fails to pay such sums prior to the expiration of such period, Lender may, without further notice or demand on Borrower, invoke any remedies permitted by paragraph 18 hereof.

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

17. Acceleration; Remedies. Except as provided in paragraph 17 hereof, upon Borrower's breach of any covenant or agreement of Borrower in this Mortgage, including the covenants to pay when due any sums secured by this Mortgage, Lender prior to acceleration shall mail notice to Borrower as provided in paragraph 14 hereof specifying; (1) the breach; (2) the action required to cure such breach; (3) a date, not less than 30 days from the date the notice is mailed to Borrower, by which such breach must be cured, and (4) that failure to cure such breach on or before the date specified in the notice may result in acceleration of the sums secured by this Mortgage, foreclosure by judicial proceeding and sale of the Property. The notice shall further inform Borrower of the right to reinstate after acceleration and the right to assert in the foreclosure proceeding the non-existence of a default or any other defense of Borrower to acceleration and foreclosure. If the breach is not cured on or before the date specified in the notice, Lender at Lender's option may declare all of the sums secured by this Mortgage to be immediately due and payable without further demand and may enforce the lien of this Mortgage by judicial proceeding. Lender shall be entitled to collect in such proceeding all expenses of foreclosure, including, but not limited to, reasonable attorney's fees, and costs of documentary evidence, abstracts and title reports.

18. Borrower's Right to Reinstate. Notwithstanding Lender's acceleration of the sums secured by this Mortgage, Borrower shall have the right to have any proceedings begun by Lender to enforce this Mortgage discontinued at any time prior to entry of a judgement enforcing this Mortgage if; (a) Borrower pays Lender all sums which would be then due under this Mortgage, the Note and notes securing Future Advances, if any, had no acceleration occurred; (b) Borrower cures all breaches of any other covenants or agreements of Borrower contained in this Mortgage; (c) Borrower pays all reasonable expenses incurred by Lender in enforcing the covenants and agreements of borrower contained in this Mortgage and in enforcing Lender's remedies as provided in paragraph 18 hereof, including, but not limited to, reasonable attorney's fees; and (d) Borrower takes such action as Lender may reasonably require to assure that the lien of this Mortgage, Lender's interest in the Property and Borrower's obligation to pay the sums secured by this Mortgage shall continue unimpaired. Upon such payment and cure by Borrower, this Mortgage and the obligations secured hereby shall remain in full force and effect as if no acceleration had occurred.

19. Assignment of Rents; Appointments of Receiver. As additional security hereunder, Borrower hereby assigns to Lender the rents of the Property, provided that Borrower shall, prior to acceleration under paragraph 18 hereof or abandonment of the Property, have the right to collect and retain such rents as they become due and payable.

Upon acceleration under paragraph 18 hereof or abandonment of the Property, and at any time prior to the expiration of any period of redemption following sale of the Property, Lender shall be entitled to have a receiver appointed by a court to enter upon, take possession of and manage the Property and to collect the rents of the Property including those past due. All rents collected by the receiver shall be applied first to payment of the costs of management of the Property and collection of rents, including, but not limited to, receiver's fees, premiums on receiver's bonds and reasonable attorney's fees, and then to the sums secured by this Mortgage. The receiver shall be liable to account only for those rents actually received.

20. Future Advances. Upon request of Borrower, Lender, at Lender's option prior to release of this Mortgage, may make Future Advances to Borrower. Such Future Advances, with interest thereon, shall be secured by this Mortgage when evidenced by promissory notes stating that said notes are secured hereby. At no time shall the principal amount of the indebtedness secured by this Mortgage, not including sums advanced in accordance herewith to protect the security of this Mortgage, exceed the original amount of the Note plus US \$ ****NO ADDITIONAL**** Dollars.

21. Recordation; Releases. Borrower shall pay all costs of recordation and release fees of said Mortgage.

22. Waiver of Homestead. Borrower hereby waives all right of homestead exemption in the Property.

In testimony whereof, witness the signature of the Borrower on the day and year first above written:

SOUTHERN MADISON WATER DISTRICT
Paul M. Reynolds
Chairman
COMMONWEALTH OF KENTUCKY
MADISON COUNTY

Larry Todd Sr.
Secretary
Harold Woodson
Treasurer

The foregoing mortgage was signed, executed and acknowledged before me, a notary public in and for the County and State aforesaid, by Paul M. Reynolds and Larry Todd spouses on the 27th day of October, 1994 and Harold A. Woodson, authorized agent for Southern Madison Water District,
My commission expires: May 13, 1996

Kenneth L. Riley
Kenneth L. Riley Notary

PREPARED BY: *Steven Connelly*
STEVEN CONNELLY, ATTORNEY
208 Short Street
Berea, KY 40403

Recorded this the 31 day of Oct. 1994
Madison County Clerk MARY JANE HINTZ
By *Emily McLeod*
BOOK 437 PAGE 785

SOUTHERN MADISON WATER DISTRICT, BEREA, KENTUCKY

**PROFORMA MINIMUM NET ANNUAL
INCOME AND REVENUES CALCULATION**

FOR THE TEST PERIOD ENDED DECEMBER 31, 1999

Issuance of \$860,000

Series 1999 Southern Madison Water District, Berea, Kentucky
Waterworks Refunding and Improvement Revenue Bonds

JAYNES, VICE & SMITH
CERTIFIED PUBLIC ACCOUNTANTS
130 SOUTH KILLARNEY LANE
POST OFFICE BOX 206
RICHMOND, KY 40476-0206

DONALD E. JAYNES, CPA
WAYNE D. VICE, CPA
DAVID A. SMITH, CPA

PHONE : 606/623-0613
FAX : 606/623-6031

To the board of Southern Madison Water District
Southern Madison Water District
Berea, Kentucky

We have compiled the accompanying Proforma Minimum Net Annual income and Revenues Calculation of the Southern Madison Water District for the test year ending December 31, 1999, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

The accompanying Proforma Minimum Net Annual Income and Revenues Calculation presents, to the best of management's knowledge and belief, the Districts Projected Debt Service Coverage that would result when the District issued \$860,000 in Revenue Refunding Bonds, Series 1999; dated September 1, 1999. It is not intended to be a projection of expected financial position, results of operations, or cash flows based on this debt financing. The Proforma Minimum Net Annual Income and Revenues Calculation and this report were prepared for the Board of Commissioners of the District and is required by the 1999 General Bond Resolution under Section 313 subsection (iii), prior to issuance of any further series of bonds of the District payable from pledged receipts and should not be used for any other purpose.

A compilation is limited to presenting projects information that is the representation of management and does not include evaluation of the support for the assumption underlying such information. We have not audited or reviewed the projected information and, accordingly, do not express an opinion or any other form of assurance on the accompanying debt service coverage calculation or assumptions. Furthermore, even when the District issued \$860,000 in Refunding and Improvement Revenue Bonds, Series 1999, dated September 1, 1999, there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

DONALD E. JAYNES, CPA
Certified Public Accountants

Richmond, Kentucky
July 26, 1999

**SOUTHERN MADISON WATER DISTRICT, BEREA, KENTUCKY
PROFORMA MINIMUM NET ANNUAL
INCOME AND REVENUES CALCULATION
FOR THE TEST YEAR DECEMBER 31, 1998
WATER REVENUE REFUNDING BONDS, SERIES 1999**

	Proforma Year Ended 12/31/99	Proforma Year Ended 12/31/98
NET ANNUAL INCOME AND REVENUES		
Operating Revenues	\$1,085,000	\$1,051,850
Operating Expenses	<u>923,500</u>	<u>945,970</u>
Net Operating Income	161,500	105,880
Service Applications	80,000	73,968
Interest Income	15,000	12,912
Add Back Depreciation and Amortization Expenses	<u>120,000</u>	<u>115,417</u>
NET ANNUAL INCOME AND REVENUES	\$376,500	\$308,177
ESTIMATED ANNUAL DEBT SERVICE COVERAGE		
Maximum Annual Debt Service Requirement (Est. - Series 1999)	\$65,855	\$65,855
Combined Maximum Annual Debt Service Requirements (Including Subordinate Debt)	116,360	116,360
Debt Service Coverage Factor	<u>1.20</u>	<u>1.20</u>
Minimum Net Annual Income & Revenue	139,632	139,632
EXCESS OF NET ANNUAL INCOME AND REVENUES OVER MAXIMUM ANNUAL DEBT SERVICE COVERAGE	\$236,868	\$168,545
ESTIMATED MAXIMUM ANNUAL DEBT SERVICE COVERAGE	<u><u>2.70</u></u>	<u><u>2.21</u></u>

See summary of significant assumptions and accountant's report

**SOUTHERN MADISON WATER DISTRICT, BERE A, KENTUCKY
NOTES TO THE PROFORMA MINIMUM NET ANNUAL
INCOME AND REVENUES CALCULATION
FOR THE TEST YEAR DECEMBER 31, 1999**

NOTE A - SUMMARY OF SIGNIFICANT ASSUMPTIONS UNDERLYING THE PROFORMA

The Proforma Minimum Net Annual Income and Revenues Calculation is required by the 1999 Bond Resolution authorizing the issuance of and securing Waterworks Refunding and Improvement Revenue Bonds, adopted September 1, 1999, of the Southern Madison Water District, Berea, Kentucky. The District is a body duly organized pursuant to Chapter 74 of the Kentucky Revised Statutes.

The financial proforma is based upon the following assumptions:

The District issued \$860,000 in Revenue Refunding Bonds, Series 1999; dated September 1, 1999.

The December 31, 1999 proforma financial information is based upon audited 1998 financial statements for fiscal year ending December 31, as amended. The December 31, 1998 proforma financial information is based upon audited 1998 financial statements for the year ended December 31, 1998.

NOTE B - 1999 BOND RESOLUTION

The 1999 General Bond Resolution states that the resolution "shall constitute the sole an exclusive method for the issuance of any Bonds by the District, and any further Series of Bonds of the District payable form the pledged receipts shall be authorized and issued solely pursuant to authority of this General Bond Resolution."

The "net annual income and revenues" may be adjusted "to reflect and take into account for the historical period being tested, any revision in the schedule of water rates, rental and charges either (i) being actually imposed and billed by the District at the time of issuance of such additional parity Bonds, or (ii) approved by the Public Service Commission of Kentucky ... and, (iii) where bonds are refunded, the additional available 'net income and revenues' of the District released as a result hereof."

A further adjustment may be made for the increase in operating revenues anticipated to be derived from the additions, extensions, replacements and betterments to be financed by the additional bonds, less the estimate of additional expenses of operation and maintenance during the said twelve months.

Southern Madison Water District
 Waterworks Refunding and Improvement Bonds, Series 1999
 Projected Debt Service

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Sources and Uses of Funds

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Delivery Date: 9/ 1/99

Sources of Funds

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Par Amount of Bonds.....	\$860,000.00
+Premium /-Discount.....	\$0.00
Bond Proceeds.....	\$860,000.00

	\$860,000.00

Uses of Funds

=====

Defease Series 1987 Bonds.....	756,300.00
Deposit into Construction Fund.....	50,000.00
Cost of Issuance.....	35,000.00
Underwriters Discount.....	17,200.00
Contingency.....	1,500.00

	\$860,000.00

Ross, Sinclaire & Associates - ENURICK

Date: 07-26-1999 @ 16:37:14 Filename: MADISON Key: 87B-NEW

Southern Madison Water District
 Waterworks Refunding and Improvement Bonds, Series 1999
 Projected Debt Service

Debt Service Schedule

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
1/1/0	15,000.00	4.700000	15,613.33	30,613.33	
7/1/0			23,067.50	23,067.50	53,680.83
1/1/1	15,000.00	4.700000	23,067.50	38,067.50	
7/1/1			22,715.00	22,715.00	60,782.50
1/1/2	20,000.00	4.700000	22,715.00	42,715.00	
7/1/2			22,245.00	22,245.00	64,960.00
1/1/3	20,000.00	4.700000	22,245.00	42,245.00	
7/1/3			21,775.00	21,775.00	64,020.00
1/1/4	20,000.00	4.700000	21,775.00	41,775.00	
7/1/4			21,305.00	21,305.00	63,080.00
1/1/5	20,000.00	4.700000	21,305.00	41,305.00	
7/1/5			20,835.00	20,835.00	62,140.00
1/1/6	20,000.00	5.100000	20,835.00	40,835.00	
7/1/6			20,325.00	20,325.00	61,160.00
1/1/7	20,000.00	5.100000	20,325.00	40,325.00	
7/1/7			19,815.00	19,815.00	60,140.00
1/1/8	25,000.00	5.100000	19,815.00	44,815.00	
7/1/8			19,177.50	19,177.50	63,992.50
1/1/9	25,000.00	5.100000	19,177.50	44,177.50	
7/1/9			18,540.00	18,540.00	62,717.50
1/1/10	25,000.00	5.100000	18,540.00	43,540.00	
7/1/10			17,902.50	17,902.50	61,442.50
1/1/11	30,000.00	5.500000	17,902.50	47,902.50	
7/1/11			17,077.50	17,077.50	64,980.00
1/1/12	30,000.00	5.500000	17,077.50	47,077.50	
7/1/12			16,252.50	16,252.50	63,330.00
1/1/13	30,000.00	5.500000	16,252.50	46,252.50	
7/1/13			15,427.50	15,427.50	61,680.00
1/1/14	35,000.00	5.500000	15,427.50	50,427.50	
7/1/14			14,465.00	14,465.00	64,892.50
1/1/15	35,000.00	5.500000	14,465.00	49,465.00	
7/1/15			13,502.50	13,502.50	62,967.50
1/1/16	35,000.00	5.600000	13,502.50	48,502.50	
7/1/16			12,522.50	12,522.50	61,025.00
1/1/17	40,000.00	5.600000	12,522.50	52,522.50	
7/1/17			11,402.50	11,402.50	63,925.00
1/1/18	40,000.00	5.600000	11,402.50	51,402.50	
7/1/18			10,282.50	10,282.50	61,685.00

Ross, Sinclair & Associates - EMurick

Date: 07-26-1999 @ 16:36:03 Filename: MADISON Key: 87B-NEW

Southern Madison Water District
 Waterworks Refunding and Improvement Bonds, Series 1999
 Projected Debt Service
 Debt Service Schedule

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
1/ 1/19	45,000.00	5.600000	10,282.50	55,282.50	
7/ 1/19			9,022.50	9,022.50	64,305.00
1/ 1/20	45,000.00	5.600000	9,022.50	54,022.50	
7/ 1/20			7,762.50	7,762.50	61,785.00
1/ 1/21	50,000.00	5.750000	7,762.50	57,762.50	
7/ 1/21			6,325.00	6,325.00	64,087.50
1/ 1/22	50,000.00	5.750000	6,325.00	56,325.00	
7/ 1/22			4,887.50	4,887.50	61,212.50
1/ 1/23	55,000.00	5.750000	4,887.50	59,887.50	
7/ 1/23			3,306.25	3,306.25	63,193.75
1/ 1/24	55,000.00	5.750000	3,306.25	58,306.25	
7/ 1/24			1,725.00	1,725.00	60,031.25
1/ 1/25	60,000.00	5.750000	1,725.00	61,725.00	
7/ 1/25					61,725.00

ACCRUED
 860,000.00
 860,000.00
 758,940.83
 758,940.83
 1,618,940.83
 1,618,940.83

Dated 9/ 1/99 with Delivery of 9/ 1/99
 Bond Years 13,561.667
 Average Coupon 5.596221
 Average Life 15.769380
 N I C % 5.723049 % Using 98.0000000
 T I C % 5.775668 % From Delivery Date

Ross, Sinclair & Associates - BNRick

Date: 07-26-1999 @ 16:36:03 Filename: MADISON Key: 87B-NEW

Southern Madison Water District
 Waterworks Refunding and Improvement Bonds, Series 1999
 Final Schedules - Sold to Bernardi Securities, Inc.
 =====
 Debt Service Schedule
 =====

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
1/1/0	20,000.00	5.100000	15,858.33	35,858.33	
7/1/0			23,277.50	23,277.50	59,135.83
1/1/1	15,000.00	5.100000	23,277.50	38,277.50	
7/1/1			22,895.00	22,895.00	61,172.50
1/1/2	20,000.00	5.125000	22,895.00	42,895.00	
7/1/2			22,382.50	22,382.50	65,277.50
1/1/3	20,000.00	5.125000	22,382.50	42,382.50	
7/1/3			21,870.00	21,870.00	64,252.50
1/1/4	20,000.00	5.150000	21,870.00	41,870.00	
7/1/4			21,355.00	21,355.00	63,225.00
1/1/5	20,000.00	5.150000	21,355.00	41,355.00	
7/1/5			20,840.00	20,840.00	62,195.00
1/1/6	20,000.00	5.150000	20,840.00	40,840.00	
7/1/6			20,325.00	20,325.00	61,165.00
1/1/7	20,000.00	5.150000	20,325.00	40,325.00	
7/1/7			19,810.00	19,810.00	60,135.00
1/1/8	25,000.00	5.150000	19,810.00	44,810.00	
7/1/8			19,166.25	19,166.25	63,976.25
1/1/9	25,000.00	5.150000	19,166.25	44,166.25	
7/1/9			18,522.50	18,522.50	62,688.75
1/1/10	25,000.00	5.300000	18,522.50	43,522.50	
7/1/10			17,860.00	17,860.00	61,382.50
1/1/11	30,000.00	5.350000	17,860.00	47,860.00	
7/1/11			17,057.50	17,057.50	64,917.50
1/1/12	30,000.00	5.400000	17,057.50	47,057.50	
7/1/12			16,247.50	16,247.50	63,305.00
1/1/13	30,000.00	5.500000	16,247.50	46,247.50	
7/1/13			15,422.50	15,422.50	61,670.00
1/1/14	35,000.00	5.500000	15,422.50	50,422.50	
7/1/14			14,460.00	14,460.00	64,882.50
1/1/15	35,000.00	5.500000	14,460.00	49,460.00	
7/1/15			13,497.50	13,497.50	62,957.50
1/1/16	35,000.00	5.650000	13,497.50	48,497.50	
7/1/16			12,508.75	12,508.75	61,006.25
1/1/17	40,000.00	5.650000	12,508.75	52,508.75	
7/1/17			11,378.75	11,378.75	63,887.50
1/1/18	40,000.00	5.650000	11,378.75	51,378.75	
7/1/18			10,248.75	10,248.75	61,627.50
1/1/19	45,000.00	5.650000	10,248.75	55,248.75	
7/1/19			8,977.50	8,977.50	64,226.25

Micro-Muni Sizing Date: 08-10-1999 @ 15:09:48 Filename: MADISON Key: 878-NEW

Southern Madison Water District
 Waterworks Refunding and Improvement Bonds, Series 1999
 Final Schedules - Sold to Bernardi Securities, Inc.

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Debt Service Schedule

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Date	Principal	Coupon	Interest	Period Total	Fiscal Total
1/ 1/20	45,000.00	5.700000	8,977.50	53,977.50	
7/ 1/20			7,695.00	7,695.00	61,672.50
1/ 1/21	50,000.00	5.700000	7,695.00	57,695.00	
7/ 1/21			6,270.00	6,270.00	63,965.00
1/ 1/22	50,000.00	5.700000	6,270.00	56,270.00	
7/ 1/22			4,845.00	4,845.00	61,115.00
1/ 1/23	55,000.00	5.700000	4,845.00	59,845.00	
7/ 1/23			3,277.50	3,277.50	63,122.50
1/ 1/24	55,000.00	5.700000	3,277.50	58,277.50	
7/ 1/24			1,710.00	1,710.00	59,987.50
1/ 1/25	60,000.00	5.700000	1,710.00	61,710.00	
7/ 1/25					61,710.00

ACCRUED	865,000.00		759,658.33	1,624,658.33	
			1,717.99	1,717.99	
	865,000.00		757,940.34	1,622,940.34	
=====					

Dated 9/ 1/99 with Delivery of 9/14/99
 Bond Years 13,563.333
 Average Coupon 5.600823
 Average Life 15.680154
 N I C % 5.728411 % Using 97.9994007
 T I C % 5.789658 % From Delivery Date

Micro-Muni Sizing Date: 08-10-1999 @ 15:09:48 Filename: MADISON Key: 87B-NEW

Southern Madison Water District
 Waterworks Refunding and Improvement Bonds, Series 1999
 Final Schedules - Sold to Bernardi Securities, Inc.

Sources and Uses of Funds
 =====
 Delivery Date: 9/14/99

Sources of Funds
 =====

Par Amount of Bonds.....	\$865,000.00	
+Premium /-Discount.....	-\$682.60	
Bond Proceeds.....		864,317.40
Accrued Interest.....		1,717.99

		\$866,035.39

Uses of Funds
 =====

Defease Series 1987 Bonds.....	759,341.71
Deposit Into Construction Fund.....	53,353.11
Cost of Issuance.....	35,000.00
Underwriters Discount..... (1.921686%)...	16,622.58
Accrued Interest.....	1,717.99
Contingency.....	0.00

	\$866,035.39

Micro-Muni Sizing Date: 08-10-1999 @ 15:09:46 Filename: MADISON Key: 87B-NEW

Southern Madison Water District
 Waterworks Refunding and Improvement Bonds, Series 1999
 Final Schedules - Sold to Bernardi Securities, Inc.

Savings Report
 =====

Date	Principal	Proposed Debt Coupon	Service Interest	Total	Prior Debt Service	Savings	Cumulative Savings
12/31/99							
1/ 1/ 0	20,000.00	5.100000	15,858.33	59,135.83	59,150.00	14.17	1,732.16
7/ 1/ 0			23,277.50				1,717.99
1/ 1/ 1	15,000.00	5.100000	23,277.50	61,172.50	59,565.63	-1,606.88	125.28
7/ 1/ 1			22,895.00				
1/ 1/ 2	20,000.00	5.125000	22,895.00	65,277.50	59,912.50	-5,365.00	-5,239.72
7/ 1/ 2			22,382.50				
1/ 1/ 3	20,000.00	5.125000	22,382.50	64,252.50	59,225.00	-5,027.50	-10,267.22
7/ 1/ 3			21,870.00				
1/ 1/ 4	20,000.00	5.150000	21,870.00	63,225.00	59,503.13	-3,721.88	-13,989.09
7/ 1/ 4			21,355.00				
1/ 1/ 5	20,000.00	5.150000	21,355.00	62,195.00	59,712.50	-2,482.50	-16,471.59
7/ 1/ 5			20,840.00				
1/ 1/ 6	20,000.00	5.150000	20,840.00	61,165.00	59,853.13	-1,311.88	-17,783.47
7/ 1/ 6			20,325.00				
1/ 1/ 7	20,000.00	5.150000	20,325.00	60,135.00	60,890.63	755.63	-17,027.84
7/ 1/ 7			19,810.00				
1/ 1/ 8	25,000.00	5.150000	19,810.00	63,976.25	60,825.00	-3,151.25	-20,179.09
7/ 1/ 8			19,166.25				
1/ 1/ 9	25,000.00	5.150000	19,166.25	62,688.75	60,690.63	-1,998.13	-22,177.22
7/ 1/ 9			18,522.50				
1/ 1/10	25,000.00	5.300000	18,522.50	61,382.50	61,453.13	70.63	-22,106.59
7/ 1/10			17,860.00				
1/ 1/11	30,000.00	5.350000	17,860.00	64,917.50	62,078.13	-2,839.38	-24,945.97
7/ 1/11			17,057.50				
1/ 1/12	30,000.00	5.400000	17,057.50	63,305.00	62,565.63	-739.38	-25,685.34
7/ 1/12			16,247.50				
1/ 1/13	30,000.00	5.500000	16,247.50	61,670.00	62,915.63	1,245.63	-24,439.72
7/ 1/13			15,422.50				
1/ 1/14	35,000.00	5.500000	15,422.50	64,882.50	63,128.13	-1,754.38	-26,194.09
7/ 1/14			14,460.00				
1/ 1/15	35,000.00	5.500000	14,460.00	62,957.50	63,203.13	245.63	-25,948.47
7/ 1/15			13,497.50				
1/ 1/16	35,000.00	5.650000	13,497.50	61,006.25	64,106.25	3,100.00	-22,848.47
7/ 1/16			12,508.75				
1/ 1/17	40,000.00	5.650000	12,508.75	63,887.50	64,803.13	915.63	-21,932.84
7/ 1/17			11,378.75				
1/ 1/18	40,000.00	5.650000	11,378.75	61,627.50	65,293.75	3,666.25	-18,266.59
7/ 1/18			10,248.75				
1/ 1/19	45,000.00	5.650000	10,248.75				

Micro-Muni Debt Date: 08-10-1999 @ 15:30:21

Filename: MADISON Key: 87B-NEW

Madison County, Kentucky
 Southern Madison County Water District
 Series 1987, \$805,000
 =====
 Debt Service Schedule
 =====

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
1/1/0	8,000.00	6.875000	25,712.50	33,712.50	59,150.00
7/1/0			25,437.50	25,437.50	59,150.00
1/1/1	9,000.00	6.875000	25,437.50	34,437.50	59,565.63
7/1/1			25,128.13	25,128.13	59,565.63
1/1/2	10,000.00	6.875000	25,128.13	35,128.13	59,912.50
7/1/2			24,784.38	24,784.38	59,912.50
1/1/3	10,000.00	6.875000	24,784.38	34,784.38	59,225.00
7/1/3			24,440.63	24,440.63	59,225.00
1/1/4	11,000.00	6.875000	24,440.63	35,440.63	59,503.13
7/1/4			24,062.50	24,062.50	59,503.13
1/1/5	12,000.00	6.875000	24,062.50	36,062.50	59,712.50
7/1/5			23,650.00	23,650.00	59,712.50
1/1/6	13,000.00	6.875000	23,650.00	36,650.00	59,853.13
7/1/6			23,203.13	23,203.13	59,853.13
1/1/7	15,000.00	6.875000	23,203.13	38,203.13	60,890.63
7/1/7			22,687.50	22,687.50	60,890.63
1/1/8	16,000.00	6.875000	22,687.50	38,687.50	60,825.00
7/1/8			22,137.50	22,137.50	60,825.00
1/1/9	17,000.00	6.875000	22,137.50	39,137.50	60,690.63
7/1/9			21,553.13	21,553.13	60,690.63
1/1/10	19,000.00	6.875000	21,553.13	40,553.13	61,453.13
7/1/10			20,900.00	20,900.00	61,453.13
1/1/11	21,000.00	6.875000	20,900.00	41,900.00	62,078.13
7/1/11			20,178.13	20,178.13	62,078.13
1/1/12	23,000.00	6.875000	20,178.13	43,178.13	62,565.63
7/1/12			19,387.50	19,387.50	62,565.63
1/1/13	25,000.00	6.875000	19,387.50	44,387.50	62,915.63
7/1/13			18,528.13	18,528.13	62,915.63
1/1/14	27,000.00	6.875000	18,528.13	45,528.13	63,128.13
7/1/14			17,600.00	17,600.00	63,128.13
1/1/15	29,000.00	6.875000	17,600.00	46,600.00	63,203.13
7/1/15			16,603.13	16,603.13	63,203.13
1/1/16	32,000.00	6.875000	16,603.13	48,603.13	64,106.25
7/1/16			15,503.13	15,503.13	64,106.25
1/1/17	35,000.00	6.875000	15,503.13	50,503.13	64,803.13
7/1/17			14,300.00	14,300.00	64,803.13
1/1/18	38,000.00	6.875000	14,300.00	52,300.00	65,293.75
7/1/18			12,993.75	12,993.75	65,293.75
1/1/19	42,000.00	6.875000	12,993.75	54,993.75	66,543.75
7/1/19			11,550.00	11,550.00	66,543.75

Micro-Muni Debt Date: 08-10-1999 @ 15:30:03 Filename: MADISON Key: 87B-OLD

Madison County, Kentucky
 Southern Madison County Water District
 Series 1987, \$805,000
 =====
 Debt Service Schedule
 =====

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
1/ 1/20	46,000.00	6.875000	11,550.00	57,550.00	
7/ 1/20			9,968.75	9,968.75	67,518.75
1/ 1/21	50,000.00	6.875000	9,968.75	59,968.75	
7/ 1/21			8,250.00	8,250.00	68,218.75
1/ 1/22	54,000.00	6.875000	8,250.00	62,250.00	
7/ 1/22			6,393.75	6,393.75	68,643.75
1/ 1/23	59,000.00	6.875000	6,393.75	65,393.75	
7/ 1/23			4,365.63	4,365.63	69,759.38
1/ 1/24	62,000.00	6.875000	4,365.63	66,365.63	
7/ 1/24			2,234.38	2,234.38	68,600.00
1/ 1/25	65,000.00	6.875000	2,234.38	67,234.38	
7/ 1/25					67,234.38

ACCRUED	748,000.00		897,393.75	1,645,393.75	
=====					

Dated 7/ 1/99 with Delivery of 7/ 1/99
 Bond Years 13,053.000
 Average Coupon 6.875000
 Average Life 17.450535
 N I C % 6.875000 % Using 100.0000000
 T I C % 6.875000 % From Delivery Date

Micro-Muni Debt Date: 08-10-1999 @ 15:30:03 Filename: MADISON Key: 87B-OLD



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-3460

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

Paul E. Patton
Governor

August 13, 1999

Ray Curry
Superintendent
Southern Madison Water District
207 North Dogwood Drive
P.O. Box 158
Berea, KY 40403

Laura H. Theilmann
Wyatt, Tarrant & Combs
Citizens Plaza
Louisville, KY 40202

Re: Case No. 99-310
Filing Deficiencies

Dear Ms. Theilmann and Mr. Curry:

The Commission staff has conducted an initial review of your filing in the above case. This filing is rejected pursuant to 807 KAR 5:001, Section 2, as it is deficient in certain filing requirements. The items listed below are either required to be filed with the application or must be referenced if they are already on file in another case or will be filed at a later date.

Filing deficiencies pursuant to 807 KAR 5:001, Section 11(2)(b):

Copies of all trust deeds or mortgages. If previously filed, state case number.

The statutory time period in which the Commission must process this case will not commence until the above-mentioned information is filed with the Commission. You



are requested to file 10 copies of this information within 15 days of the date of this letter. If you need further information, please contact Scott Lawless of my staff at (502) 564-3940, ext. 239.

Sincerely,



Stephanie Bell
Secretary of the Commission

sa





COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

August 13, 1999

Ray Curry
Superintendent
Southern Madison Water District
207 North Dogwood Drive
P. O. Box 168
Berea, KY. 40403

Honorable Laura H. Theilmann
Bond Counsel
Wyatt, Tarrant & Combs
Citizens Plaza
Louisville, KY. 40202

Honorable C. Michael Weldon
Attorney at Law
Burnam, Thompson, Weldon & Simons
116 W. Main Street, Suite 2A
P. O. Box 726
Richmond, KY. 40475

RE: Case No. 99-310

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE SOUTHERN MADISON)
WATER DISTRICT TO ISSUE SECURITIES IN THE)
APPROXIMATE PRINCIPAL AMOUNT OF EIGHT)
HUNDRED SIXTY THOUSAND DOLLARS (\$860,000)) CASE NO.
FOR THE PURPOSE OF REFUNDING CERTAIN) 99-310
OUTSTANDING REVENUE BONDS OF THE DISTRICT)
AND TO PROVIDE FUNDS PURSUANT TO THE)
PROVISIONS OF KRS 278.300 AND 807 KAR 5:001)

O R D E R

On July 22, 1999, Southern Madison Water District ("Southern Madison") applied to the Commission for authority to issue certain securities in the approximate principal sum of \$860,000 for the purpose of refunding certain outstanding waterworks revenue bonds and funding a construction fund for small line extensions. In its filing, Southern Madison requested permission to deviate from the requirements of Administrative Regulation 807 KAR 5:001, Section 6.

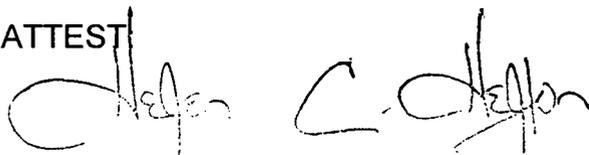
Administrative Regulation 807 KAR 5:001, Section 6, requires the submission of a detailed financial exhibit covering operations for a 12-month period ending not more than 90 days prior to the date of the application. Having reviewed the filing and being otherwise sufficiently advised, the Commission finds that the information filed therein is sufficient to enable the Commission to review adequately Southern Madison's filing. Therefore, its request to deviate from the above-cited regulation should be granted.

IT IS THEREFORE ORDERED that Southern Madison's request to deviate from the requirements of 807 KAR 5:001, Section 6, is granted.

Done at Frankfort, Kentucky, this 13th day of August, 1999.

By the Commission

ATTEST

A handwritten signature in cursive script, appearing to read "Stephen C. O'Connell", written over a horizontal line.

Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

July 28, 1999

Ray Curry
Superintendent
Southern Madison Water District
207 North Dogwood Drive
P. O. Box 168
Berea, KY. 40403

Honorable Laura H. Theilmann
Bond Counsel
Wyatt, Tarrant & Combs
Citizens Plaza
Louisville, KY. 40202

Honorable C. Michael Weldon
Attorney at Law
Burnam, Thompson, Weldon & Simons
116 W. Main Street, Suite 2A
P. O. Box 726
Richmond, KY. 40475

RE: Case No. 99-310
SOUTHERN MADISON WATER DISTRICT
(Construct, Financing) (Deviation)

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received July 22, 1999 and has been assigned Case No. 99-310. In all future correspondence or filings in connection with this case, please reference the above case number.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/jc

WYATT, TARRANT & COMBS

CITIZENS PLAZA

LOUISVILLE, KENTUCKY 40202-2898

502 589-5235

FAX: 502 589-0309

1700 LEXINGTON FINANCIAL CENTER
LEXINGTON, KY 40507-1746
606 233-2012

TAYLOR-SCOTT BUILDING
FRANKFORT, KY 40601-1807
502 223-2104

ELSBY BUILDING
NEW ALBANY, IN 47150-3440
812 945-3561

1500 NASHVILLE CITY CENTER
NASHVILLE, TN 37219-1750
615 244-0020

29 MUSIC SQUARE EAST
NASHVILLE, TN 37203-4322
615 255-6161

FILED

AUG 20 1999

**PUBLIC SERVICE
COMMISSION**

313 E. MAIN STREET, SUITE 1
HENDERSONVILLE, TN 37075-2546
615 822-8822

6075 POPLAR AVENUE, SUITE 650
MEMPHIS, TN 38119-4721
901 537-1000

10368 WALLACE ALLEY STREET, SUITE 6
KINGSPORT, TN 37663-3977
423 279-1825

WRITER'S DIRECT DIAL NUMBER

502 562-7236

July 21, 1999

RECEIVED
JUL 22 1999
**PUBLIC SERVICE
COMMISSION**

Via Federal Express

Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane, P.O. Box 615
Frankfort, Kentucky 40602

CASE 99-310

Re: Southern Madison Water District - Application for Authority to Issue Securities

Ms. Helton:

Pursuant to Section 278.300 of the Kentucky Revised Statutes, please find enclosed the original and ten (10) copies of an application of the Southern Madison Water District to issue approximately \$860,000 of its Waterworks Refunding and Improvement Revenue Bonds for the purpose of refunding its outstanding Waterworks Revenue Bonds, Series of 1987, dated January 1, 1987 and for the construction of a small line extension.

The District respectfully requests an Order authorizing the issuance of the above described bonds without a formal hearing and that this matter be placed at the head of the docket.

Please call if you have any questions or need any additional information. Thank you for your assistance.

Sincerely,

WYATT, TARRANT & COMBS

Laura Theilmann

Laura H. Theilmann

Ms. Helen C. Helton
July 21, 1999
Page 2

Enclosures

cc: Ms. Julie A. Petersen
Ross, Sinclair & Associates, Inc.
315 N. Broadway
Lexington, Kentucky 40508

Mr. Dallas Cox, General Manager
Southern Madison Water District
207 N. Dogwood Drive
P.O. Box 168
Berea, Kentucky 40403

C. Michael Weldon, Esquire
Burnam, Thompson, Weldon & Simons
116 W. Main Street, Suite 2A
P.O. Box 726
Richmond, Kentucky 40475

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED
JUL 22 1999
PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

THE APPLICATION OF THE SOUTHERN MADISON WATER DISTRICT (THE "DISTRICT") TO ISSUE SECURITIES IN THE APPROXIMATE PRINCIPAL AMOUNT OF EIGHT HUNDRED SIXTY THOUSAND DOLLARS (\$860,000) FOR THE PURPOSE OF REFUNDING CERTAIN OUTSTANDING REVENUE BONDS OF THE DISTRICT AND TO PROVIDE FUNDS PURSUANT TO THE PROVISIONS OF KRS 278.300 AND 807 KAR 5:001

CASE NO. 99-310

APPLICATION

The Applicant, Southern Madison Water District of Madison County, Kentucky, files this Application pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and requests that the Public Service Commission of Kentucky (the "Commission") enter an Order authorizing the District to issue certain securities in the approximate principal sum Eight Hundred Sixty Thousand Dollars (\$860,000.00) for the purpose of refunding certain outstanding waterworks revenue bonds of the District and funding a construction fund for small line extensions. In support of this Application, and in compliance with the rules and regulations of the Commission, the District states as follows:

1. The District was established by Order of the County Court of Madison County, Kentucky pursuant to the provisions of KRS Chapter 74. The District is now, and has been since its inception, regulated by the Commission, and all records and proceedings of the Commission with reference to the District are incorporated in this Application by reference.

2. The governing body of the District is its Board of Commissioners which is a public body corporate, with power to make contracts in furtherance of its lawful and proper established under KRS 74.070 and all applicable laws and regulations purpose as provided.

3. The mailing address of the District is as follows:

Southern Madison Water District
c/o Larry Todd, Chairman
207 North Dogwood Drive
P.O. Box 168
Berea, Kentucky 40403
Telephone: (606) 986-9031

4. A general description of the District's water system property, together with a statement of the original cost, is contained in the District's Annual Report for December, 1998 which is on file with the Commission. Such Annual Report is incorporated herein by reference.

5. The District proposes to issue new securities, to be designated as Southern Madison Water District Waterworks Refunding and Improvement Revenue Bonds, Series 1999, (the "1999 Bonds"), in the estimated principal amount of Eight Hundred Sixty Thousand Dollars (\$860,000), for the purpose of refunding the outstanding revenue bonds designated as Southern Madison Water District Waterworks Revenue Bonds, Series 1987, dated January 1, 1987, in the original aggregate principal amount of Eight Hundred Five Thousand Dollars (\$805,000), which bear interest at the rate of six and seven eights percent (6.78%) per annum, and having an outstanding principal balance of Seven Hundred Forty-Eight Thousand Dollars (\$748,000).

6. The estimated Debt Service Schedule for the 1999 Bonds is shown in Exhibit A, which is attached hereto and incorporated herein by reference. Exhibit A also shows the anticipated coupon rate for each maturity and the anticipated average coupon rate. The final terms and details

of the 1999 Bonds, including the Debt Service Schedule, may vary from the present assumptions based upon market conditions and other business judgment factors. Then 1999 Bonds will be sold pursuant to public advertisement soliciting competitive bids according to Kentucky law.

7. The issuance of the 1999 Bonds will provide the District with the funds necessary to (i) refund the 1987 Bonds; (ii) deposit to a construction fund \$50,000; and (iii) pay the fees and expenses incident to the issuance of the 1999 Bonds.

8. The Sources and Uses of funds to be obtained from the issuance of the 1999 Bonds are detailed as Exhibit B, which is attached hereto and incorporated herein by reference.

9. It is anticipated that the proposed refinancing will result in total gross savings of approximately twenty-two thousand five hundred forty-nine dollars and fifty-eight cents (\$22,549.58) which represents a net present value savings of 5.5673%. These savings are shown on the Net Debt Service Savings Report, which is attached hereto and incorporated herein by reference as Exhibit C.

10. The Debt Service Schedule of the outstanding 1987 Bonds being refunded is set forth in Exhibit D, attached hereto and incorporated herein by reference.

11. The District represents that the issuance of the 1999 Bonds is in the public interest and is intended to accomplish the purpose of strengthening the financial condition of the District by producing substantial debt service savings. This is a lawful object within the corporate purposes of the District's utility operations. The issuance of the 1999 Bonds is necessary, appropriate for, and consistent with, the proper performance by the District of its service to the public and will not impair its ability to perform that service.

12. The district represents that it will, as soon as reasonably possible after the issuance of the 1999 Bonds, file with the Commission a statement setting forth the date of issuance of the 1999 Bonds, the price paid, the fees and expenses incurred in the issuance of the 1999 Bonds, and the terms and interest rates of the 1999 Bonds.

13. The detailed Statement of Revenues and Expenses, Balance Sheet and Statement of Cash Flows for the twelve (12) month periods ending on December 31, 1997 and December 31, 1998 respectively, are attached hereto and incorporated herein by reference as Exhibit E.

14. The remaining financial schedules and other information necessary for the financial exhibit required by 807 KAR 5:001, Section 6, which requires that the financial data filed with the Application be for a twelve (12) month period ending within ninety (90) days of the filing of the application. The District states that there has been no change that is material in nature in the financial condition or operation of the District since December 31, 1998. The financial data filed with this Application is for the twelve (12) month period ending December 31, 1998. This is the most recent published financial data available. Because of the volatility of the bond market, the District cannot run the risk of delaying the sale of the 1999 Bonds while more current financial data is compiled.

16. Attached as Exhibit F hereto is a map of the of the proposed KY 21 Line Extension together with an estimate of construction project costs.

17. The sale of the 1999 Bonds is tentatively scheduled for early August, 1999.

18. No rate adjustment will be necessary.

WHEREFORE, the District respectfully requests that the Commission take the following actions,

1. Place this Application to issue securities at the head of the docket as provided by KRS 278.300(2);
2. Authorize the issuance of the securities requested in the Application prior to the proposed sale date of early August, 1999;
3. Grant the District a deviation, to the extent necessary, from 807 KAR 5:001, Section 6, to allow the submission of the District's 1998 Annual Report in lieu of more recent financial data, due to the volatility of the present bond market there being no material change in the data in 1998; and
4. Process this Application without a formal hearing in order to save time and expense. The District will promptly respond to any Inquiries or informal requests by the Commission's staff.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

SOUTHERN MADISON WATER DISTRICT

Larry Todd
Larry Todd, Chairman

Laura H. Theilmann
WYATT, TARRANT & COMBS
Laura H. Theilmann, Esq.
Bond Counsel
Citizens Plaza
Louisville, Kentucky 40202
502/562-7236

C. Michael Weldon
C. MICHAEL WELDON
Burnam, Thompson, Weldon & Simons
116 W. Main Street, Suite 2A
P.O. Box 726
Richmond, Kentucky 40475
606/623-5205

STATE OF KENTUCKY)
) SS
COUNTY OF MADISON)

The undersigned, LARRY TODD, being first duly sworn, deposes and states: That he is the Chairman of Southern Madison Water District of Madison County, Kentucky, Petitioner in the above Petition; that he has read the foregoing Petition and has noted the contents thereof; that the same is true to the best of his own knowledge and belief.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on the ____ day of _____, 1999.

Larry Todd
Larry Todd

Acknowledged before me by Larry Todd, Chairman of the Southern Madison Water District, on this 16 day of July, 1999.

My Commission expires 12-11-2002.

Notary Public, Shelby R. Curry
Kentucky

(Seal of Notary)

Southern Madison Water District
 Waterworks Refunding and Improvement Bonds, Series 1999
 Projected Debt Service
 Debt Service Schedule
 =====

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
1/1/0	15,000.00	4.700000	19,516.67	34,516.67	
7/1/0			23,067.50	23,067.50	57,584.17
1/1/1	15,000.00	4.700000	23,067.50	38,067.50	
7/1/1			22,715.00	22,715.00	60,782.50
1/1/2	20,000.00	4.700000	22,715.00	42,715.00	
7/1/2			22,245.00	22,245.00	64,960.00
1/1/3	20,000.00	4.700000	22,245.00	42,245.00	
7/1/3			21,775.00	21,775.00	64,020.00
1/1/4	20,000.00	4.700000	21,775.00	41,775.00	
7/1/4			21,305.00	21,305.00	63,080.00
1/1/5	20,000.00	4.700000	21,305.00	41,305.00	
7/1/5			20,835.00	20,835.00	62,140.00
1/1/6	20,000.00	5.100000	20,835.00	40,835.00	
7/1/6			20,325.00	20,325.00	61,160.00
1/1/7	20,000.00	5.100000	20,325.00	40,325.00	
7/1/7			19,815.00	19,815.00	60,140.00
1/1/8	25,000.00	5.100000	19,815.00	44,815.00	
7/1/8			19,177.50	19,177.50	63,992.50
1/1/9	25,000.00	5.100000	19,177.50	44,177.50	
7/1/9			18,540.00	18,540.00	62,717.50
1/1/10	25,000.00	5.100000	18,540.00	43,540.00	
7/1/10			17,902.50	17,902.50	61,442.50
1/1/11	30,000.00	5.500000	17,902.50	47,902.50	
7/1/11			17,077.50	17,077.50	64,980.00
1/1/12	30,000.00	5.500000	17,077.50	47,077.50	
7/1/12			16,252.50	16,252.50	63,330.00
1/1/13	30,000.00	5.500000	16,252.50	46,252.50	
7/1/13			15,427.50	15,427.50	61,680.00
1/1/14	35,000.00	5.500000	15,427.50	50,427.50	
7/1/14			14,465.00	14,465.00	64,892.50
1/1/15	35,000.00	5.500000	14,465.00	49,465.00	
7/1/15			13,502.50	13,502.50	62,967.50
1/1/16	35,000.00	5.600000	13,502.50	48,502.50	
7/1/16			12,522.50	12,522.50	61,025.00
1/1/17	40,000.00	5.600000	12,522.50	52,522.50	
7/1/17			11,402.50	11,402.50	63,925.00
1/1/18	40,000.00	5.600000	11,402.50	51,402.50	
7/1/18			10,282.50	10,282.50	61,685.00

Ross, Sinclair & Associates - Bnurick

Date: 07-07-1999 @ 14:13:16 Filename: MADISON Key: 87B-NEW

EXHIBIT A

Southern Madison Water District
 Waterworks Refunding and Improvement Bonds, Series 1999
 Projected Debt Service
 Debt Service Schedule

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
1/ 1/19	45,000.00	5.600000	10,282.50	55,282.50	
7/ 1/19			9,022.50	9,022.50	64,305.00
1/ 1/20	45,000.00	5.600000	9,022.50	54,022.50	
7/ 1/20			7,762.50	7,762.50	61,785.00
1/ 1/21	50,000.00	5.750000	7,762.50	57,762.50	
7/ 1/21			6,325.00	6,325.00	64,087.50
1/ 1/22	50,000.00	5.750000	6,325.00	56,325.00	
7/ 1/22			4,887.50	4,887.50	61,212.50
1/ 1/23	55,000.00	5.750000	4,887.50	59,887.50	
7/ 1/23			3,306.25	3,306.25	63,193.75
1/ 1/24	55,000.00	5.750000	3,306.25	58,306.25	
7/ 1/24			1,725.00	1,725.00	60,031.25
1/ 1/25	60,000.00	5.750000	1,725.00	61,725.00	
7/ 1/25					61,725.00

ACCRUED
 860,000.00
 762,844.17 1,522,844.17

Dated 8/ 1/99 with Delivery of 8/ 1/99
 Bond Years 13,633.333
 Average Coupon 5.595434
 Average Life 15.852713
 N I C % 5.721595 % Using 98.0000000
 T I C % 5.773504 % From Delivery Date

Ross, Sinclair & Associates - BNRick

Date: 07-07-1999 @ 14:13:16 Filename: MADISON Key: 87B-NEW

Southern Madison Water District
 Waterworks Refunding and Improvement Bonds, Series 1999

Projected Debt Service
 Sources and Uses of Funds
 Delivery Date: 8/1/99

Sources of Funds
 =====

Par Amount of Bonds.....	\$860,000.00	
+Premium /-Discount.....	50.00	
Bond Proceeds.....		860,000.00

		\$860,000.00

Uses of Funds
 =====

Purchase Escrow to Defease Series 1987.....		756,300.00
Deposit into Construction Fund.....		50,000.00
Cost of Issuance.....		35,000.00
Underwriters Discount..... (2.000000%)		17,200.00
Contingency.....		1,500.00

		\$860,000.00

Ross, Sinclaire & Associates - BNurick

Date: 07-07-1999 @ 14:13:13 Filename: MADISON Key: 87B-NEW

Southern Madison Water District
 Waterworks Refunding and Improvement Bonds, Series 1999
 Projected Debt Service
 Savings Report
 =====

Date	Principal	Proposed Debt Coupon	Debt Service Interest	Total	Prior Debt Service	Savings	Cumulative Savings
12/31/99							
1/1/0	15,000.00	4.700000	19,516.67	57,584.17	59,150.00	1,565.83	1,565.83
7/1/0			23,067.50				
1/1/1	15,000.00	4.700000	23,067.50	60,782.50	59,565.63	-1,216.88	348.96
7/1/1			22,715.00				
1/1/2	20,000.00	4.700000	22,715.00	64,960.00	59,912.50	-5,047.50	-4,698.54
7/1/2			22,245.00				
1/1/3	20,000.00	4.700000	22,245.00	64,020.00	59,225.00	-4,795.00	-9,493.54
7/1/3			21,775.00				
1/1/4	20,000.00	4.700000	21,775.00	63,080.00	59,503.13	-3,576.88	-13,070.42
7/1/4			21,305.00				
1/1/5	20,000.00	4.700000	20,835.00	62,140.00	59,712.50	-2,427.50	-15,497.92
7/1/5			20,325.00				
1/1/6	20,000.00	5.100000	20,325.00	61,160.00	59,853.13	-1,306.88	-16,804.79
7/1/6			20,325.00				
1/1/7	20,000.00	5.100000	20,325.00	60,140.00	60,890.63	750.63	-16,054.17
7/1/7			19,815.00				
1/1/8	25,000.00	5.100000	19,815.00	63,992.50	60,825.00	-3,167.50	-19,221.67
7/1/8			19,177.50				
1/1/9	25,000.00	5.100000	19,177.50	62,717.50	60,690.63	-2,026.88	-21,248.54
7/1/9			18,540.00				
1/1/10	25,000.00	5.100000	18,540.00	61,442.50	61,453.13	10.63	-21,237.92
7/1/10			17,902.50				
1/1/11	30,000.00	5.500000	17,902.50	64,980.00	62,078.13	-2,901.88	-24,139.79
7/1/11			17,077.50				
1/1/12	30,000.00	5.500000	17,077.50	63,330.00	62,565.63	-764.38	-24,904.17
7/1/12			16,252.50				
1/1/13	30,000.00	5.500000	16,252.50	61,680.00	62,915.63	1,235.63	-23,668.54
7/1/13			15,427.50				
1/1/14	35,000.00	5.500000	15,427.50	64,892.50	63,128.13	-1,764.38	-25,432.92
7/1/14			14,465.00				
1/1/15	35,000.00	5.500000	14,465.00	62,967.50	63,203.13	235.63	-25,197.29
7/1/15			13,502.50				
1/1/16	35,000.00	5.600000	13,502.50	61,025.00	64,106.25	3,081.25	-22,116.04
7/1/16			12,522.50				
1/1/17	40,000.00	5.600000	12,522.50	63,925.00	64,803.13	878.13	-21,237.92
7/1/17			11,402.50				
1/1/18	40,000.00	5.600000	11,402.50				

Ross, Sinclair & Associates - BNRick

Micro-Muni Debt Date: 07-07-1999 @ 14:23:20 Filename: MADISON Key: 87B-NEW

EXHIBIT C

Southern Madison Water District
 Waterworks Refunding and Improvement Bonds, Series 1999
 Projected Debt Service
 Savings Report

Date	Principal	Coupon	Debt Service Interest	Total	Prior Debt Service	Savings	Cumulative Savings
7/ 1/18	45,000.00	5,600.00	10,282.50	61,685.00	65,293.75	3,608.75	-17,629.17
1/ 1/19			10,282.50				
7/ 1/19	45,000.00	5,600.00	9,022.50	64,305.00	66,543.75	2,238.75	-15,390.42
1/ 1/20			9,022.50				
7/ 1/20	50,000.00	5,750.00	7,762.50	61,785.00	67,518.75	5,733.75	-9,656.67
1/ 1/21			7,762.50				
7/ 1/21	50,000.00	5,750.00	6,325.00	64,087.50	68,218.75	4,131.25	-5,525.42
1/ 1/22			6,325.00				
7/ 1/22	55,000.00	5,750.00	4,887.50	61,212.50	68,643.75	7,431.25	1,905.83
1/ 1/23			4,887.50				
7/ 1/23	55,000.00	5,750.00	3,306.25	63,193.75	69,759.38	6,565.63	8,471.46
1/ 1/24			3,306.25				
7/ 1/24	60,000.00	5,750.00	1,725.00	60,031.25	68,600.00	8,568.75	17,040.21
1/ 1/25			1,725.00				
7/ 1/25	860,000.00			61,725.00	67,234.38	5,509.38	22,549.58
ACRUED	860,000.00		762,844.17	1,622,844.17	1,645,393.75		22,549.58

Dated 8/ 1/99 with Delivery of 8/ 1/99
 Bond Years 13,633.333
 Average Coupon 5.595434
 Average Life 15.852713
 N I C % 5.721595 % Using 98.0000000
 T I C % 5.773504 % From Delivery Date

Net Present Value Savings at: 5.5673% Equals -4,839.00 or -0.5627% of Par of the Current Issue
 or -0.6469% of Par of the Prior Issue

Ross, Sinclair & Associates - BURICK
 Micro-Muni Debt Date: 07-07-1999 @ 14:23:20 Filename: MADISON Key: 87B-NEW

Madison County, Kentucky
 Southern Madison County Water District
 Series 1987, \$805,000
 Debt Service Schedule

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
1/1/0	8,000.00	6.875000	25,712.50	33,712.50	
7/1/0			25,437.50	25,437.50	59,150.00
1/1/1	9,000.00	6.875000	25,437.50	34,437.50	
7/1/1			25,128.13	25,128.13	59,565.63
1/1/2	10,000.00	6.875000	25,128.13	35,128.13	
7/1/2			24,784.38	24,784.38	59,912.50
1/1/3	10,000.00	6.875000	24,784.38	34,784.38	
7/1/3			24,440.63	24,440.63	59,225.00
1/1/4	11,000.00	6.875000	24,440.63	35,440.63	
7/1/4			24,062.50	24,062.50	59,503.13
1/1/5	12,000.00	6.875000	24,062.50	36,062.50	
7/1/5			23,650.00	23,650.00	59,712.50
1/1/6	13,000.00	6.875000	23,650.00	36,650.00	
7/1/6			23,203.13	23,203.13	59,853.13
1/1/7	15,000.00	6.875000	23,203.13	38,203.13	
7/1/7			22,687.50	22,687.50	60,890.63
1/1/8	16,000.00	6.875000	22,687.50	38,687.50	
7/1/8			22,137.50	22,137.50	60,825.00
1/1/9	17,000.00	6.875000	22,137.50	39,137.50	
7/1/9			21,553.13	21,553.13	60,690.63
1/1/10	19,000.00	6.875000	21,553.13	40,553.13	
7/1/10			20,900.00	20,900.00	61,453.13
1/1/11	21,000.00	6.875000	20,900.00	41,900.00	
7/1/11			20,178.13	20,178.13	62,078.13
1/1/12	23,000.00	6.875000	20,178.13	43,178.13	
7/1/12			19,387.50	19,387.50	62,565.63
1/1/13	25,000.00	6.875000	19,387.50	44,387.50	
7/1/13			18,528.13	18,528.13	62,915.63
1/1/14	27,000.00	6.875000	18,528.13	45,528.13	
7/1/14			17,600.00	17,600.00	63,128.13
1/1/15	29,000.00	6.875000	17,600.00	46,600.00	
7/1/15			16,603.13	16,603.13	63,203.13
1/1/16	32,000.00	6.875000	16,603.13	48,603.13	
7/1/16			15,503.13	15,503.13	64,106.25
1/1/17	35,000.00	6.875000	15,503.13	50,503.13	
7/1/17			14,300.00	14,300.00	64,803.13
1/1/18	38,000.00	6.875000	14,300.00	52,300.00	
7/1/18			12,993.75	12,993.75	65,293.75

Ross, Sinclair & Associates - BNurick

Micro-Muni Debt Date: 07-07-1999 @ 14:23:32 Filename: MADISON Key: 87B-OLD

EXHIBIT D

Madison County, Kentucky
 Southern Madison County Water District
 Series 1987, \$805,000
 Debt Service Schedule
 =====

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
1/ 1/19	42,000.00	6.875000	12,993.75	54,993.75	
7/ 1/19			11,550.00	11,550.00	66,543.75
1/ 1/20	46,000.00	6.875000	11,550.00	57,550.00	
7/ 1/20			9,968.75	9,968.75	67,518.75
1/ 1/21	50,000.00	6.875000	9,968.75	59,968.75	
7/ 1/21			8,250.00	8,250.00	68,218.75
1/ 1/22	54,000.00	6.875000	8,250.00	62,250.00	
7/ 1/22			6,393.75	6,393.75	68,643.75
1/ 1/23	59,000.00	6.875000	6,393.75	65,393.75	
7/ 1/23			4,365.63	4,365.63	69,759.38
1/ 1/24	62,000.00	6.875000	4,365.63	66,365.63	
7/ 1/24			2,234.38	2,234.38	68,600.00
1/ 1/25	65,000.00	6.875000	2,234.38	67,234.38	
7/ 1/25					67,234.38

ACCRUED 748,000.00 897,393.75 1,645,393.75
 =====
 748,000.00 897,393.75 1,645,393.75
 =====

Dated 7/ 1/99 with Delivery of 7/ 1/99
 Bond Years 13,053.000
 Average Coupon 6.875000
 Average Life 17.450535
 N I C % 6.875000 % Using 100.0000000
 T I C % 6.875000 % From Delivery Date

Ross, Sinclair & Associates - BNRick

Micro-Muni Debt Date: 07-07-1999 @ 14:23:32 Filename: MADISON Key: 87B-OLD

SOUTHERN MADISON WATER DISTRICT

BEREA, KENTUCKY

* * *

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

EXHIBIT E

JAYNES, VICE & SMITH
CERTIFIED PUBLIC ACCOUNTANTS

SOUTHERN MADISON WATER DISTRICT
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 1998 AND 1997

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JAYNES, VICE & SMITH
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DAVIDA A. SMITH, CPA

PHONE : 606/623-0613
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INDEPENDENT AUDITOR'S REPORT

To The Board of Commissioners of
Southern Madison Water District
Berea, Kentucky

We have audited the accompanying balance sheets of Southern Madison Water District as of December 31, 1998 and 1997, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audits.

We have conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Madison Water District as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.



JAYNES, VICE, & SMITH
Certified Public Accountants

February 15, 1999

SOUTHERN MADISON WATER DISTRICT
BALANCE SHEET
AS OF DECEMBER 31, 1998 AND 1997

ASSETS

	<u>1998</u>	<u>1997</u>
UTILITY PLANT (Note 1C)		
At cost	\$3,806,923	\$3,620,354
Accumulated depreciation	(1,422,333)	(1,307,052)
Net utility plant	<u>2,384,590</u>	<u>2,313,302</u>
SEGREGATED FUNDS (Note 2)		
Bond and interest sinking funds:		
Cash in bank	7,775	4,859
Construction funds:		
Cash in bank	7,105	18,552
Depreciation reserve fund:		
Time deposits	104,000	104,000
Depository account:		
Cash	13,225	4,043
Time deposits	80,340	77,544
Total segregated funds	<u>212,445</u>	<u>208,998</u>
CURRENT ASSETS		
Cash	197,167	157,221
Accounts receivable (Note 1B)	87,352	72,267
Supply inventory (Note 1A)	28,139	24,541
Prepaid insurance	6,597	5,098
Interest receivable	953	2,783
Total current assets	<u>320,208</u>	<u>261,910</u>
OTHER ASSETS		
Unamortized bond issue costs	3,884	4,020
Deposits	200	200
Total other assets	<u>4,084</u>	<u>4,220</u>
TOTAL ASSETS	<u><u>\$2,921,327</u></u>	<u><u>\$2,788,430</u></u>

The accompanying notes are an integral part of the financial statements.

LIABILITIES AND EQUITY

	<u>1998</u>	<u>1997</u>
NONCURRENT LIABILITIES		
Bonds payable (Note 3)	\$1,070,000	\$1,108,000
Note payable (Note 5)	<u>40,035</u>	<u>46,553</u>
Total noncurrent liabilities	1,110,035	1,154,553
CURRENT LIABILITIES		
Accounts payable	58,002	94,920
Payroll and sales tax payable	11,268	7,345
Customer deposits	104,360	93,550
Interest payable	1,624	1,480
Note payable	<u>11,174</u>	<u>11,174</u>
Total	186,428	208,469
Payable from segregated funds:		
Bonds payable (Note 3)	<u>38,000</u>	<u>37,000</u>
Total current liabilities	224,428	245,469
EQUITY		
Contributions in aid of construction	1,084,661	925,566
Retained earnings	<u>502,203</u>	<u>462,842</u>
Total equity	1,586,864	1,388,408
TOTAL LIABILITIES AND EQUITY	<u><u>\$2,921,327</u></u>	<u><u>\$2,788,430</u></u>

SOUTHERN MADISON WATER DISTRICT
STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
OPERATING INCOME		
Sale of water	\$1,014,852	\$940,419
Late charges	24,526	21,915
Miscellaneous	12,472	15,781
Total operating income	<u>1,051,850</u>	<u>978,115</u>
 COST OF SALES		
Purchased water	<u>492,156</u>	<u>446,678</u>
 GROSS PROFIT	 559,694	 531,437
 OPERATING EXPENSES		
Bad debt expense (recoveries)	1,962	8,490
Commissioners' salaries	10,800	10,500
Depreciation and amortization (Note 1C)	115,417	98,296
Dues, taxes, and licenses	4,313	2,403
Employee benefits (Notes 6 and 7)	14,342	10,148
Insurance and bonding	15,220	14,668
Miscellaneous	7,996	4,879
Office expense	14,834	16,972
Payroll taxes	14,442	12,732
Professional services	19,355	15,025
Repairs and maintenance	46,771	29,940
Salaries and wages	157,703	143,773
Truck and equipment expense	12,356	13,789
Utilities and telephone	19,275	20,269
Total operating expenses	<u>454,786</u>	<u>401,884</u>
 Operating income	 \$104,908	 \$129,553

The accompanying notes are an integral part of the financial statements.

SOUTHERN MADISON WATER DISTRICT
STATEMENT OF INCOME (CONT'D)
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
OTHER INCOME (EXPENSES)		
Interest income	\$12,912	\$13,476
Interest expense on bonded debt, other debt	(75,087)	(77,523)
Interest expense on customer deposits	<u>(3,372)</u>	<u>(2,729)</u>
Total other income (expenses)	<u>(65,547)</u>	<u>(66,776)</u>
NET INCOME (LOSS)	<u>\$39,361</u>	<u>\$62,777</u>

The accompanying notes are an integral part of the financial statements.

SOUTHERN MADISON WATER DISTRICT
STATEMENT OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
Retained earnings, beginning of year	\$462,842	\$400,065
Net income (loss) for the year	<u>39,361</u>	<u>62,777</u>
Retained earnings, end of year	<u>\$502,203</u>	<u>\$462,842</u>

The accompanying notes are an integral part of the financial statements.

SOUTHERN MADISON WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
OPERATING ACTIVITIES		
Net income (loss)	\$39,361	\$62,777
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	115,417	98,296
Changes in operating assets and liabilities:		
(Increase) decrease in net accounts receivable	(13,255)	218
(Increase) decrease in inventories and prepaid expenses	(5,097)	3,801
Increase (decrease) in accounts payable and accrued expenses	<u>(22,041)</u>	<u>57,095</u>
Net cash provided by operating activities	<u>114,385</u>	<u>222,187</u>
INVESTING ACTIVITIES		
Additions to utility plant	(82,469)	(161,683)
Line rebates to customers	<u>(18,973)</u>	<u>(19,317)</u>
Net cash used in investing activities	<u>(101,442)</u>	<u>(181,000)</u>
FINANCING ACTIVITIES		
Principal payments on long-term debt	(43,518)	(42,989)
Contributions in aid of construction	<u>73,968</u>	<u>71,136</u>
Net cash provided (used) in financing activities	<u>30,450</u>	<u>28,147</u>
Increase (decrease) in cash and cash equivalents	43,393	69,334
Cash and cash equivalents at beginning of year	<u>366,219</u>	<u>296,885</u>
Cash and cash equivalents at end of year	<u><u>\$409,612</u></u>	<u><u>\$366,219</u></u>

The accompanying notes are an integral part of the financial statements.

SOUTHERN MADISON WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998 AND 1997

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

A. *Inventories*

Inventories are stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method.

B. *Accounts Receivable*

The District uses the allowance method to account for uncollectible accounts receivable.

	<u>1998</u>	<u>1997</u>
Trade accounts receivable	\$105,219	\$88,172
Less: Allowance for doubtful accounts	<u>17,867</u>	<u>15,905</u>
Net accounts receivable	<u>\$ 87,352</u>	<u>\$72,267</u>

C. *Utility Plant*

The utility plant is stated at cost and depreciation is provided for in amounts sufficient to relate the cost to operations over the estimated service lives on a straight-line basis.

D. *Bond Issue Costs*

The legal costs incurred in issuing the 1987 bond are being amortized over the life of the bond on a straight-line basis.

E. *Accounting Standards*

The District follows all pronouncements of the *Governmental Accounting Standards Board* (GASB), and also *Financial Accounting Standards Board* statements and interpretations, *Accounting Principles Board* opinions, and *Accounting Research Bulletins*, issued on or before November 30, 1989, unless they conflict with a GASB pronouncement.

SOUTHERN MADISON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

NOTE 2 – RESTRICTED ASSETS AND BOND REQUIREMENTS

The District is required, under the resolution of the waterworks revenue bond issue, to maintain certain restricted cash accounts. The resolution provides for all revenue received to be deposited on a timely basis, in a water revenue cash account with transfers being made to the following accounts:

Operations and Maintenance Account

Monthly transfers of a sum sufficient to meet the current expenses of operating and maintaining the system. The balance in this fund shall not exceed an amount required to cover anticipated expenditures for a two-month period pursuant to the annual budget.

Bond and Interest Sinking Account

Monthly transfers of a sum equal to one-sixth (or larger as necessary) of the next succeeding interest installment and one-twelfth (or larger as necessary) of the next principal installment.

Depreciation Reserve Account

The depreciation reserve account currently is funded in the amount of \$104,000.

Excess Funds

There shall be transferred within sixty days after the end of each calendar year, the balance of excess funds in the Revenue Account to the Depreciation Reserve Account for the purpose of paying the cost of extensions, additions and/or improvements to the project.

NOTE 3 – BONDS PAYABLE

Bonds payable at December 31, 1998 represent the following:

- A. 4 ¾% Waterworks Revenue Bonds of 1969, due as follows:

<u>Serial Number</u>	<u>Date Due Jan. 1</u>	<u>Amount</u>
56-58	2000	\$30,000
59-61	2001	30,000
62-64	2002	30,000
65-67	2003	30,000

SOUTHERN MADISON WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998 AND 1997

NOTE 3 – BONDS PAYABLE (CONT'D)

<u>Serial Number</u>	<u>Date Due Jan. 1</u>	<u>Amount</u>
68-71	2004	\$40,000
72-75	2005	40,000
76-79	2006	40,000
80-83	2007	40,000
84-87	2008	40,000
88-91	2009	<u>40,000</u>
		<u>\$360,000</u>

Bonds maturing prior to January 1, 1981, are noncallable. Bonds maturing on and after January 1, 1981, shall be subject to redemption or prepayment on any interest payment date on and after January 1, 1980, at par plus interest without any redemption premium.

A statutory mortgage lien upon the waterworks system is created by Section 106.080 of the Kentucky Revised Statutes in favor of the registered owner of the bonds.

B. 6 7/8% Waterworks Revenue Bond of 1987, due as follows:

<u>Date Due Jan. 1</u>	<u>Amount</u>	<u>Date Due Jan. 1</u>	<u>Amount</u>
2000	\$8,000	2013	\$25,000
2001	9,000	2014	27,000
2002	10,000	2015	29,000
2003	10,000	2016	32,000
2004	11,000	2017	35,000
2005	12,000	2018	38,000
2006	13,000	2019	42,000
2007	15,000	2020	46,000
2008	16,000	2021	50,000
2009	17,000	2022	54,000
2010	19,000	2023	59,000
2011	21,000	2024	62,000
2012	23,000	2025	<u>65,000</u>
			<u>\$748,000</u>

SOUTHERN MADISON WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998 AND 1997

NOTE 4 – RELATED PARTY DISCLOSURES

The District engaged in financial transactions with the Chairman of the Board of Commissioners and the Secretary of the Board of Commissioners. The District purchases its insurance coverage through the Chairman's insurance agency. Total premiums for 1998 and 1997 were \$12,868 and \$14,667 respectively. The District purchased two trucks from the Secretary's used car business in 1997 for a total cost of \$15,800.

NOTE 5 – NOTE PAYABLE

The note payable consists of the following at Berea National Bank:

<u>Date of Note</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>Collateral</u>
10/27/94	\$54,555	8.5% var.	\$931.13	11/1/2004	Office Bldg.

NOTE 6 – CAFETERIA PLAN

Effective October 1, 1995, the District adopted a cafeteria plan in accordance with Section 125 of the U.S. Internal Revenue Code. The plan allows eligible employees to reduce their taxable compensation by allocating an amount from each pay period to pay health insurance premiums. Total contributions to the plan in 1998 and 1997 were \$7,625 and \$8,317 respectively. The District pays for the cost of a single person plan. Any additional coverage is paid by the employee.

NOTE 7 – RETIREMENT PLAN

Effective October 1, 1998, the District became a participating member of the Kentucky County Employees Retirement System (CERS). Under the terms of the plan each eligible employee contributes five percent of his or her gross wages to the plan while the District contributes 8.22 percent to the plan. The plan is a qualified plan under IRC Section 401. Total employee contributions in 1998 were \$1,300. Total employer contributions in 1998 were \$2,137.

NOTE 8 – YEAR 2000 ISSUE

The District has identified the areas of its operations that it believes may be affected by what is commonly referred to as the "Y2K" problem. Management believes the most material area is customer billing. The District uses computers for its billing and has received a letter from their software vendor stating that their hardware and software systems are Year 2000 compliant. However, because of the unprecedented nature of the Y2K problem, its effects and the success of related remediation efforts cannot be fully determined until after December 31, 1999.

Southern Madison Water District Engineers Opinion of Probable Cost Water Line Extension for KY 21

Item No.	Description	Unit	Unit Cost	Item Quantity	Item Cost
1	6" PVC, SDR-17	LF	5.25	8,000	42,000.00
2	4" PVC, SDR-17	LF	4.25	5,500	23,375.00
3	4"x4" Tapping Sleeve & Valve	EA	1,100.00	1	1,100.00
4	6" Gate Valve	EA	550.00	1	550.00
5	4" Gate Valve	EA	450.00	1	450.00
6	Bored & Cased for 6" Main	LF	70.00	80	5,600.00
7	Open Cut & Cased for 6" Main	LF	50.00	40	2,000.00
8	Open Cut & Cased for 4" Main	LF	40.00	10	400.00
9	Creek Crossing for 6" Main	LF	50.00	80	4,000.00
10	4" Blowoff Assem., End of Line	EA	550.00	1	550.00
11	3" Blowoff Assem., In-Line	EA	500.00	2	1,000.00
12	Relocate Existing Blowoff	EA	200.00	1	200.00
13	Air Release Valve Assembly	EA	400.00	4	1,600.00
14	3/4" x 5/8" Meter Setting w/ PRV	EA	300.00	20	6,000.00
15	3/4" Service Tubing	LF	2.50	1,300	3,250.00
16	Gravel Pavement Replacement	LF	5.00	150	750.00
17	Concrete & Bit. Pavement Replac.	LF	10.00	20	200.00
Total Estimated Construction Cost					\$93,025.00

PROJECT COST SUMMARY

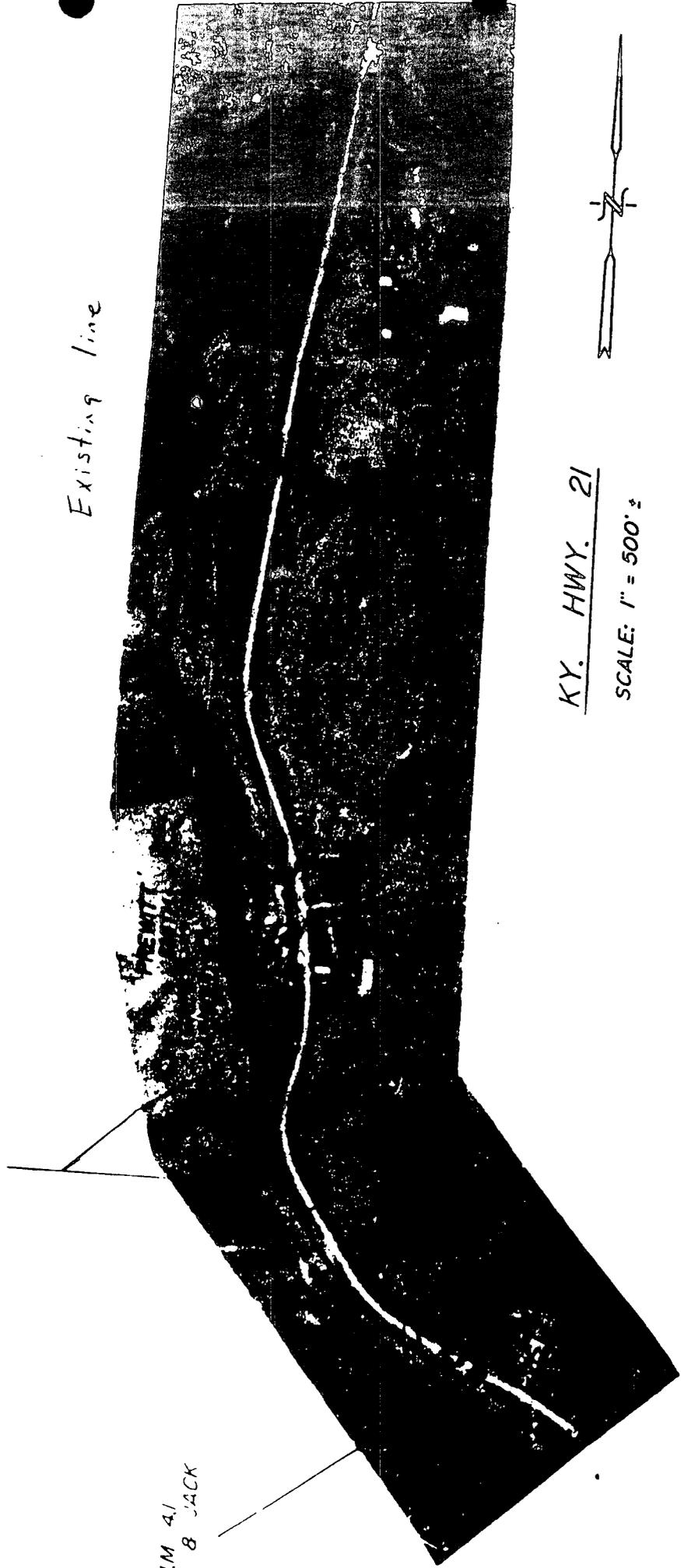
Development	\$93,025.00
Engineering	12,100.00
Inspection	11,200.00
Local Counsel	2,000.00
Contingencies	8,675.00
TOTAL PROJECT COST	\$127,000.00

NOTE: Engineering, Inspection, and Local Counsel Fees were estimated using the FmHA Schedule as outlined by Form FmHA 1942-19 & 442-11A.

M.M. 4/
LAY 550' W.L.
ON SHOULDER 8' WEST
OF EDGE OF PAVEMENT

M.M. 4/
E & JACK

Existing line



KY. HWY. 21

SCALE: 1" = 500' ±

